Climate transition planning

A guide for executives

Sustainable Business Council | WBCSD Global Network

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

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Working draft

This guidance is a working draft. This means that you can provide your feedback, suggestions for improvement, or requests for clarification to us at **sustainability@xrb.govt.nz**.

This document was created by the Sustainable Business Council (SBC), in partnership with the External Reporting Board (XRB) and with support from SBC member Aurecon.

The XRB is an independent Crown entity that develops and issues reporting standards on accounting, audit and assurance, and climate, for entities across the private, public, and not-for-profit sectors.

SBC is an executive-led membership organisation that mobilises over 130 ambitious businesses through advocacy, collaboration and connection, driving towards a future where business, people and nature thrive together.

SBC would like to offer particular thanks to Aurecon for offering its support in the development of this resource.

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This document

This document provides guidance for executives looking to drive and take part in their business's climate transition planning journey.

The purpose of this guidance is to provide an overview of:

- the role of executives, with key objectives and responsibilities at each step; and
- practical guidance on how to apply familiar tools of strategy, change management and planning, to plan, lead and execute under high uncertainty.

This document is part of a suite of guidance notes:

- **Transition planning – An overview**, covers what climate transition planning is, and how it can help organisations transform deep uncertainties into an actionable long-term strategy.
- **Guide for directors**, using the four pillars framework of governance.
- **Staff guide**, that includes practical 'how to' guidance and useful tools to get started, as well as an end-to-end example.

Important Note

These guidance notes focus on the climate transition planning process. For guidance about *disclosure* related to the Aotearoa New Zealand Climate Standards (NZ CS), visit the XRB's website.

Contents

Foreword

SBC is proud to partner with the XRB to provide guidance around business transition planning.

We live in an era that will be defined by the profound impacts of climate change. This is clear. But perhaps the most important lesson we've learnt in recent years is that when we move our focus from risk to opportunity, we can make things happen.

At the Sustainable Business Council, we see the environment and economic prosperity as being inextricably linked. The 2020s are a critical decade for developing and putting in place the climate and nature-based solutions that respond to the environmental challenges we face. These changes will help move us toward a more productive, innovative and efficient economy that leans into our strengths and ensures we remain competitive on the global stage.

This document is designed to be a helpful guide for business leaders on how to navigate the uncertainties posed by climate impacts, shedding light on the nature of transition planning. Embracing new tools and methodologies, beyond traditional business models, will put us in the position to grasp the full picture of potential futures.

As you explore these insights, you'll find practical approaches that will help your organisation integrate transition planning into your core strategy and direct investment. It will help ensure your pathway is well-planned, well-executed and makes business sense. Further, it will help you position your business as a leader, in the face of changing expectations of stakeholders and customers.

The guidance is based on fostering collaboration across your teams and encourages a shared vision for sustainability. Sustainability is a team sport, and we encourage businesses to take this mindset.

SBC would like to thank our collaborators in developing this material – namely the External Reporting Board (XRB), who commissioned the work to support the SBC network and provided advice as the document was developed, as well as Aurecon who prepared the material and contributed a great deal of expertise.

The document builds on a host of work that has already been delivered. It is supported by the other guidance documentation that speaks to the actions required for transition planning as well as disclosure guidance, which I encourage you to engage with.

Looking beyond immediate pressures and taking steps to build sustainability into your core business requires a new kind of leadership. Successful leaders will be those who are able to look longer-term, articulate this vision, pivot when needed, and critically, stay the course.

Mike Burrell, Executive Director
Sustainable Business Council (SBC), New Zealand

Transition planning: An executive's "need to know"

Increasingly, climate change is causing significant disruption, and it is going to get worse before it might get better[1]. However, it can be perceived as one of a long list of topics to manage. But climate change is a systemic risk[2]: Its impacts are interconnected, deeply uncertain and unfold over a long-term horizon[3].

By being cognisant of the uncertainty this future state presents, and taking a proactive strategic approach to transition planning, businesses can navigate climate change.

Deep technological changes are on the horizon, driven by a need to reduce greenhouse gas (GHG) emissions, but not by economic forces through productivity gains. This is not like any past technological revolutions.

Disruptions will arise from physical and social forces. By contrast, corporate strategy is mostly driven and influenced by market forces (competition, technology, consumers, regulation and more).

Climate change therefore requires different approaches and tools that many businesses may not be used to deploying on a day-to-day basis, such as scenario analysis.

Transition planning aids organisations to not only being sustainable, but also resilient, using foresight to seize growth opportunities, make better investment decisions, and reduce operational costs.

This is not limited to climate change: nature, social and technology mega-trends are reshaping the operating environment at an increasing pace. Waiting is not a winning strategy, because:

Greater volatility requires greater adaptability.

Deeper uncertainty requires looking beyond the immediate horizon.

Increased complexity requires increased resilience and broader expertise.

Ambiguity requires experimenting and greater attention to assumptions[4].

Transition planning helps organisation tackle these challenges.

By drafting a long-term adaptive strategy, businesses will be equipped to navigate their shifting operating environment and position themselves for success.

Transition planning is not just about climate-related disclosures. It is a core element of robust business planning and a business's overall strategy. To help prepare your business for a low-emissions, climate-resilient future, integrate it into your strategic planning process.

Transition planning asks the 'so what' question:

So, what is your business going to do in response to what it learnt from climate scenario analysis and making climate-related disclosures?

[1] See IPCC 6th synthesis report – Summary for policy makers – Figure SPM.1(c)
[2] See TCFD's Guidance on Risk Management Integration and Disclosure (page 5).
[3] The WEF Global Risks Report 2024 visualises this showing how Environmental risks are connected to economic downturn, supply chain disruptions and critical infrastructure disruptions. WEF Global Risks Report 2023, Strategic Intelligence
[4] What VUCA Really Means for You

Done well, transition planning can:

- Enable your business to identify and seize opportunities, and make business model changes, which will increase the likelihood of your business's success in the transition to a low-emissions, climate-resilient economy
- Reduce your business's exposure to legal, trade and capital access risks, while highlighting market opportunities and improving the attractiveness of your business for investors/stakeholders
- Enable your business to define a robust long-term strategic direction allowing for better decisions, avoiding lock-ins, and ensuring timeliness and right sizing of execution
- Improve your business' ability to navigate the increasing uncertainty of your operating environment, not just from climate change but from other disruptions
- Create confidence in, and support for, the case for change and transformation in your business
- Enhance your leadership influence across the organisation
- Develop your business's capabilities, as it demands continuous dynamic and adaptive optioneering, planning and operationalisation.

See ***Climate Transition Planning – An overview*** for more details on 'why' and the 'what' of transition planning.

Piecing together the climate transition puzzle

While the term 'transition planning' in the climate change context may be new, entities may find that they are already well on their way in their thinking and action.

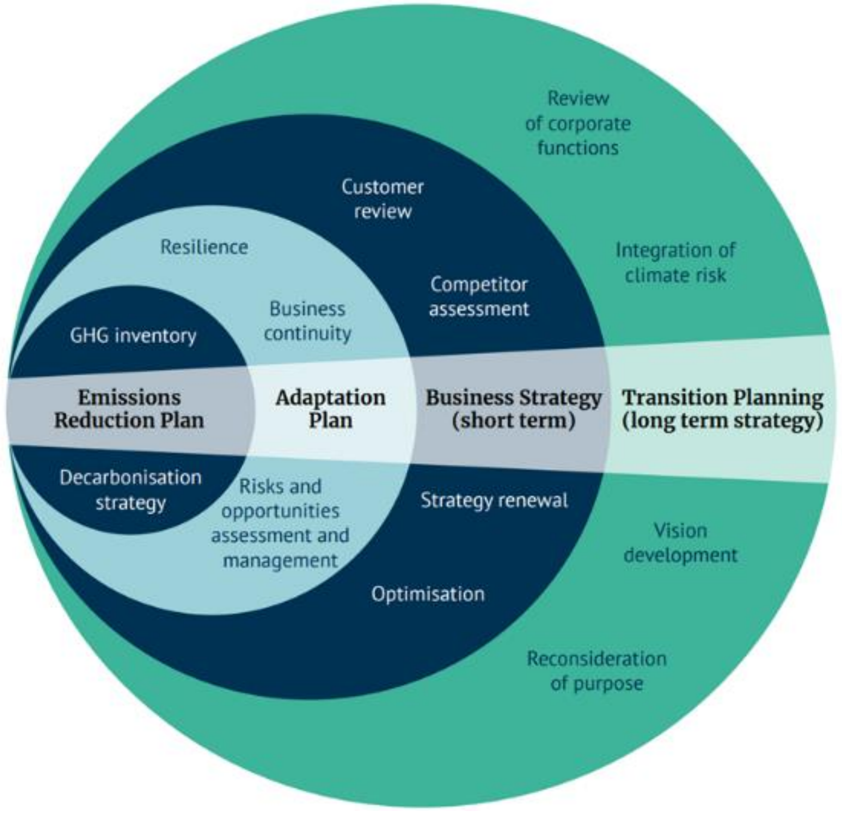
Many businesses would have already completed elements of transition planning, in the form of decarbonisation roadmaps, adaptation plans and activities supporting climate-related disclosures. Transition planning becomes the tool for ensuring these disparate parts are cohesive and tied into the business's broader strategy, as illustrated in Figure 1.

Transition planning requires organisations to think beyond reducing emissions, including consideration such as:

- Adaptation and resilience to physical risks
- Management of climate-related transition risks, such as changes in policy, litigation activity, market drivers
- Value chain resilience
- Responding to changing customer and stakeholder expectations, and social licence
- Taking advantage of climate-related opportunities

Transition planning can also be a vehicle for driving a business's strategy and action in fields such as biodiversity, circular economy and social outcomes. This could help streamline strategy and planning exercises and avoid duplicating efforts.

Figure 1: Climate change planning tools and processes



Source: Transition planning – a guide for directors | Chapter Zero

Transition planning relies heavily on leadership

What is different with transition planning?

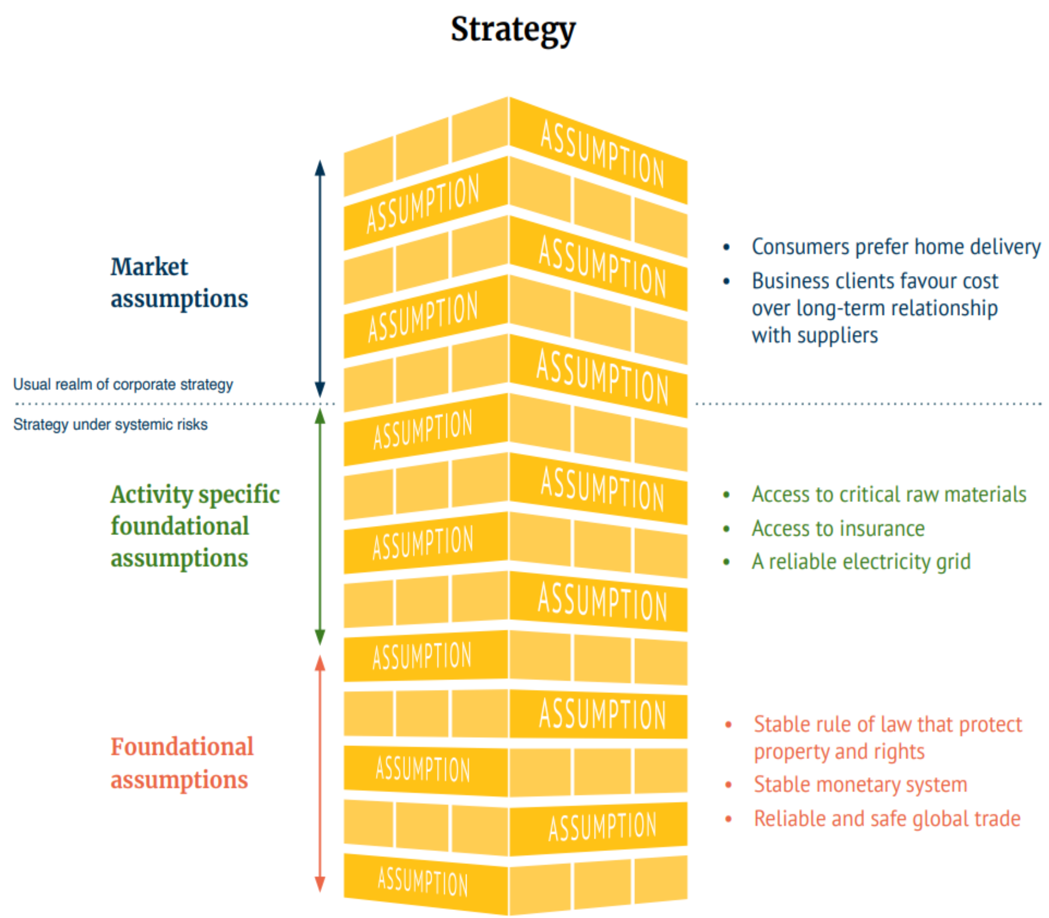
By now, it should be clear that transition planning is about positioning your business to deliver on a long-term strategy, while facing high uncertainty. This results in the following main departures from existing strategic planning processes:

- **Longer timeframes**: This means greater uncertainty and greater changes in operating environment, but greater foresight also brings benefits.
- **Adaptive strategy**: Timing is critical, and finding the early plays positioning your business to win for widely different futures will be key to survival.
- **Interrogate assumptions more deeply**: Many features of the current operating environment are taken for granted today but might not be true tomorrow, as illustrated in Figure 2.

Applying the transition planning process in detail will highlight blind spots in existing processes and shorter-term strategic planning. An adaptive strategy better enables a business to manage systematic uncertainties, and better position the organisation in a volatile, uncertain, and complex future.

Interrogation of assumptions is a key aspect of the transition planning process that executives can drive through challenge and interrogation.

Figure 2: Foundational assumptions as building blocks of corporate strategy



Source: Protecting New Zealand's competitive advantage | Chapter Zero

Step by step: At a glance

	Step 1: Re-evaluate core strategy	Step 2: Formulate strategic intent	Step 3: Plan	Execution: Implement, monitor and adjust course
Executive(s)' objectives	Work with the board to assess the business's readiness for climate change and building the (business) case for change: why there is a need to transition, and what needs to change.	Define a vision for thriving in uncertainty and identify strategic choices for effective positioning of the business. Executives must work with the board to develop long-term strategic intent that guides short term plans.	Assess the feasibility of the transition plan and ensure its alignment with decision timelines and financial sustainability: converting strategic intent into actionable steps and promote collaboration across the organisation.	Ensure the business has the structure, processes, resources and culture to effectively deliver on the transition plan, and to evolve and adapt over time.
Key responsibilities	▪ Engage the organisation and empower teams to communicate the case for change. ▪ Foster broad agreement on climate related challenges; revisiting scenarios with internal stakeholders if needed. ▪ Remain open minded to re-evaluating existing processes driven by climate change.	▪ Collaborate with the board to ensure strategic intent can be operationalised, balancing ambition with deliverability. ▪ Engage the management team and staff in discussions to integrate their insights, drawing on expertise from sustainability officers and supporting functions.	▪ Provide visible leadership through effective communication and transparency building trust. ▪ Ensure staff understand the strategic intent and have the necessary resources to contribute effectively, while allowing them space to focus on planning. ▪ Ensure consistency between operationalisation and strategic intent – beware of being side tracked.	▪ Executives will be key enablers removing barriers and providing clear direction. ▪ Drive the "tone from the top" advocating for the transition planning process. ▪ Be accountable for the transition plan – understand its challenges, assess its progress and where changes need to be made.
Dive in	▪ 1.1 Enlist key business functions ▪ 1.2 Test transition planning inputs ▪ 1.3 Test foundational assumptions ▪ 1.4 Build the case for change	▪ 2.1 Envision success in different futures ▪ 2.2 Generate and refine strategic options ▪ 2.3 Express your strategic intent	▪ 3.1 Communicate the strategic intent to the wider organisation ▪ 3.2 / 3.3 Develop a detailed transition plan ▪ 3.4 Assess the financial implications of this plan	▪ 4.1 Ensure change is implemented across the business ▪ 4.2 Put people and organisational culture at the centre of change ▪ 4.3 Monitoring and iterating the transition plan

The role of a business's executives in climate transition planning is crucial to its success.

- Directors have a critical leadership and oversight role to play in transition planning as part of their duty to the long-term sustainability of the company. However, the long-term strategy needs to align with short-term strategy to create a cohesive overall approach. Executives need to work with the Board to co-develop the long-term strategic intent that will inform the detailed transition planning. Leading by example by engaging deeply with the planning process, setting a precedent for others to do the same, is key. The decisions and leadership required is not something that staff within businesses are always able to provide and requires executives to set the tone
- Executives should ensure cross-organisation support and buy-in, and allocate resource adequately to the process. Because it impacts long-term choices and includes challenging the status quo, this needs to be led from the top.

Figure 3 Climate transition planning roles by function

	Directors	Executives / Management	Sustainability officer (SO)	Support functions (finance, risk, strategy, etc)
Entity's core strategy re-evaluation	Approve the case for change, engaging in governance and oversight	Enable case for change (resources and cross-functional collaboration)	Enrols and coordinates others across the organisation to build the business case for change	Support SO in building the case for change
Formulate strategic intent	Co-develop and approve the strategic intent	Co-develop the strategic intent	Support	Support
Planning	Approve the transition plan	Accountable for the development of the transition plan	Co-ordinate	Support

Source: Transition planning – a guide for directors | Chapter Zero

How executives can leverage their skillset and influence for transition planning

Step 1: Re-evaluate core strategy– Building the case for change

Executive(s)' objectives

This step aims to answer the following questions:

- How well is the business set up for success in an uncertain future impacted by climate change?
- What could be changed about the business to be prepared and resilient?

This will result in building the (business) case for change: why there is a need to transition, and what needs to change.

It is built on work done previously during the **scenario analysis process**.

What should be top of mind

As a leader within the business, executives must ensure the strategy can be operationalised and are accountable to the board for the delivery of the strategy. This is the same for transition planning.

Many executives will have some experience in re-evaluating their organisation's core strategy. In the context of transition planning, the following points should be top of mind for executives in this step:

- The organisation, and specific teams, need to be brought on the journey. As a leader, executives have a role in demonstrating by example, and empowering staff in communicating the case for change.
- Ensure there is broad agreement on the challenges raised by the climate scenarios. In the absence of a shared understanding of what climate change means for the organisation, consider iterating or revisiting scenarios with more internal stakeholders.
- Be open minded to testing the existing 'ways of working' in the context of a quite different future driven by climate change.

How to – Practical guidance and useful tools

The following sections provide more detail on the actions that support a business's core strategy re-evaluation. There are four main actions in this step:

1.1 Enlist key business functions

1.2 Test transition planning inputs

1.3 Test foundational assumptions

1.4 Build the case for change

1.1 Enlist key business functions

Transition planning is a strategy renewal with a wide scope. Before investing valuable time and resources, a business must determine if it is adequately equipped to both undertake the process and to reap the benefits.

Gaps in key functions may be identified, but that is to be expected and should not derail the process. Rather, being aware of these gaps is important to ensure necessary changes can be made as part of (or parallel to) the transition planning process.

Transition planning is about embedding climate risks, opportunities, and uncertainties into a business's strategy. Therefore, governance, strategy, risk management and finance functions[5] should be deeply involved in this process.

For a transition planning process to run effectively, clarity on roles and responsibilities for each of these critical functions is key.

This means being able to answer the following questions:

- Who owns the function? (accountability, responsibility, decision making)
- How are cross-organisation topics managed?
- Are interactions between risks tracked, and how are they managed?
- How are long-term issues managed?
- How do risk management and strategy work together?
- Is there sufficient climate change literacy among the people within this function?
- Who can provide the mandate for a whole-of-organisation project?

The absence of clear answers to these questions would signal that the process needs to be approached with an open mind to doing things differently. In practice, this could mean agreeing on temporary arrangements with a clear distribution of roles and responsibilities.

In the following sections, we expand on why the four key functions below need to be brought into the transition planning process.

Governance | Strategy | Risk | Finance

Governance

Robust governance arrangements ensure appropriate awareness, ownership, and challenge during transition planning.

The *Director's guide* provides a detailed discussion on the role of governance in the transition planning process, targeted at boards and directors. Executives seeking to introduce transition planning and building buy-in from either their board or other senior management should refer to the messaging within the *Directors guide*.

Risk function

For most businesses, transition planning and climate risk management may raise the need to reconsider how the risk management function operates within the businesses.

Most businesses are familiar with managing **preventable risks** (i.e. risks arising from within the company that generate no strategic benefits), such as the recent increased focus on health and safety risks. Some businesses have a more

[5] In this guidance we refer to 'functions'. In larger entities, a function (such as strategy or risk management) may represent whole teams. In others, it may only be part of one person's role. This guidance aims to accommodate both ends of the spectrum.

developed risk function to identify, monitor and manage **strategic risks** (i.e. risks taken for superior strategic returns). Fewer organisations have a risk function with the capability and processes designed to manage **external risks** (i.e. external, uncontrollable risks) such as geopolitical risks. This is typical: **Businesses align their risk management approach to the threats they face.**

But as a business's operational environment will change under the effects of climate change, these threats will evolve, along with a growing number of external risks susceptible to impact the business. It is therefore important for a business to be aware of, and honest about, its current risk function and capabilities, and acknowledge that it might need to evolve.

Risk culture: A business's risk culture drives the behaviours that influence day-to-day practices. Its culture will determine how it will manage risk when under stress. The risk culture can be either a liability or a source of resilience and competitive advantage.

A robust and pervasive risk culture is key to embed climate change considerations across the business.

"This risk culture should be embedded in the way the firm operates and should cover all areas and activities, with particular care not to limit risk management to specific business areas or to have it operate only as an audit or control function".

The transition planning process is an opportunity to evolve the risk culture within an organisation and raise awareness about climate-related risks and opportunities for the business.

Strategy function

Transition planning charts how a business will achieve its purpose, goals, and strategy:

- Through the significant disruption of transitioning to a low-emissions climate-resilient economy
- While the physical effects of climate change are continually increasing in severity and frequency, triggering in turn...
- ... Shifts in market forces such as customers' ability to pay, competitors' behaviours, or supply chain costs and reliability.

Along with the business's purpose, goals and strategy, the key inputs to transition planning are:

- Climate scenarios (and the assumptions and material drivers that underpin them)
- Climate-related risks and opportunities
- The current understanding of the business's emissions profile, and
- The value chain which the organisation exists within.

When a business's strategy isn't achieving what is intended, a business cannot continually improve, leverage disruptive technologies, nor adapt to new market conditions.

A good forward-looking strategy process requires minimal adaptation to consider new mega-trends such as climate (or nature or artificial intelligence) and will enable the use of existing resources, experience, and capabilities to support the business's transition planning.

- Strategy without foresight makes businesses vulnerable to outside disruptions.
- Foresight without strategy renders scenarios unactionable.
- Each on its own has value, but a deeply shifting operating environment requires both.

Like risk management, the way the strategy function is distributed across a business will be tailored to its current needs. These needs might evolve, with the operating environment, with climate change.

A disciplined and systematic approach to strategic foresight will help ensure your business is resilient in the face of unforeseen disruption.

Only focussing on familiar threats and known risks can lead to businesses being caught unprepared and having to react under duress

For example:

- Dealing with cross-cutting, long-term issues can prove challenging in large, complex businesses. These businesses can also suffer from another challenge: Being tailored for highly quantitative analysis, while this process requires mostly qualitative analysis and creativity. These businesses can tend to be more risk averse, and find it more difficult to manage uncertainties, typically focusing on modelling and projections to make decisions. Analysis should be pragmatic and the level of quantification relative to the business.
- Smaller businesses might have the strategy function concentrated (sometimes in a single position) or might not have any perceived need for a strategy function (i.e. no dedicated position). This concentration of the strategy function presents the advantage of clarity for decision making but comes with two challenges: this central person being time-constrained, and limited opportunity to incorporate diverse business perspectives as part of a robust process.

A business embarking on a transition planning process and willing to make the most of it will find it valuable to acknowledge potential gaps in its strategy function (in its current form) and define clear temporary arrangements to ensure the current structure is not hindering its ability to deliver on embedding climate change in its overall strategy.

Ideally, a person (or group) will be mandated (‘strategy lead’) to lead the strategy renewal process across the organisation and will be able to secure support from anyone within the business, including involving the business’s governance body, when needed

Finance

The finance function will play an important role in testing and improving the financial sustainability of the transition plan.

This is because **the expectations have changed, and a transition plan is no longer an aspirational roadmap but needs to be credible and to articulate the links with capital deployment decisions and process(es).**

Consider early involvement of this function in the process[6].

The finance function will be able to provide valuable inputs to the process. This includes the starting point of any transition pathway (i.e. asset value, debt, operating cash flow, etc.), key milestones (i.e. assets management schedule, contracts renewals, etc.), and the potential financial impacts of different solutions. They will also be able to provide the financial boundaries of the transition plan as well as solutions to finance an ambitious transformation of their organisation.

[6] Broadening the horizon: How CFOs and Finance Functions can help drive corporate sustainability | Cambridge Institute for Sustainability Leadership (CISL)

1.2 Test transition planning inputs

To get the best out of the transition planning process, a business needs a good understanding of where it is now, and where it is potentially going. Like any other process, bad inputs are going to lead to bad outputs.

It is for this reason that businesses should take the time upfront to do a stocktake of and test inputs with the objectives of transition planning in mind (i.e. improving resiliency to the future, not just producing disclosures).

Executives must be involved in the process to ensure the business objectives and strategy are considered suitably. Executives can also be a point of escalation and cut through areas of ambiguity or uncertainty.

Businesses should have a sound understanding of the following groups of inputs:

Table 1: Inputs for transition planning

Current state inputs	Future state inputs
▪ the business's current business model and strategy (NZ CS paragraph 16(a)) ▪ the business's greenhouse gas emissions throughout their value chain (scopes 1, 2 and 3) (NZ CS 1 para 22 (a)) ▪ the climate resilience of the business's current strategy and business model the scenario analysis process (NZ CS 1 para 16 and BC36). ▪ Value chain inputs and outputs	▪ the climate-related scenarios applicable to the business (NZ CS 1 para 13) ▪ critical uncertainties (generated through the scenario analysis process) ▪ the business's climate-related risks and opportunities assessment (NZ CS 1 para 14) ▪ existing decarbonisation and/or adaptation plans

If some of these key inputs are missing, such as critical uncertainties, consider using the **XRB's staff guidance on entity scenario development**.

Ensuring climate-related scenario analysis is an effective input

Scenario analysis is a fundamental prerequisite for transition planning. However, it is not uncommon for the scenario analysis process to 'run out of steam' towards the end, especially during its first iteration. Sometimes the last step, to 'assess strategic resilience', is not done well, as decision makers may not be ready for the idea that business model or strategy change is necessary.

Those charged with transition planning, such as executives, may also not have been closely involved in scenario analysis. The **scenario quality checklist** helps newcomers to check the quality and robustness of the business's climate scenario process. **Positive questioning** can also help identify gaps collaboratively. For a reminder of the key questions that would have been asked and answered during scenario analysis, see page 42 of the **entity-level scenario analysis guidance.**

Exploring blind spots that could not be investigated during the scenario analysis process

Moreover, the scenario analysis process might have surfaced issues requiring further investigation that could not reasonably be conducted in parallel. The start of transition planning is a good opportunity to go back to those areas seen as important to the entity's own transition, but not yet fully explored.

Executives could commission work to double-check the assumptions made by participants during the scenario analysis, such as:

- Assessing the potential impacts of tipping points for the entity's value chain
- A technology scan to better assess the actual progress of a set of technologies
- Market research on parts of the value chain
- Talking with key customers and/or suppliers.

1.3 Test foundational assumptions

Transition planning requires explicitly stating the assumptions underpinning an entity's current business model and strategy, with a specific focus on foundational assumptions that could be challenged in climate-related scenarios. This will help the entity to clearly articulate its case for change.

Articulate the assumptions underpinning the current business model and strategy

> "The future cannot be researched because it does not exist." Kjell A. Nordström

We can only make assumptions about the future. Every strategy is based on some set of assumptions or vision of how the future will unfold. What distinguishes a good strategy from a poor strategy is the quality of the assumptions upon which it is built. Therefore, clarifying and challenging these assumptions is paramount.

As noted in paragraph BC41 of NZ CS 1, "the implications of scenario analysis for the entity's business model and strategy should be, due to the nature of climate change itself, profound and of critical strategic relevance to the entity".

An entity that finds, following the scenario analysis process, that climate change will be of minimal inconvenience for its strategy, business model and operations, has likely not considered the scenario and its implications in enough detail, and is at risk of misleading its stakeholders.

Robustly interrogating the assumptions underpinning the entity's business model, strategy and operations is one way to avoid this.

Businesses which do not track systematically the set of **strategic assumptions** they use for their current strategy can refer to methods such as **SAST** to help surface these assumptions.

In the context of transition planning, many assumptions would be rendered invalid in some or all climate-related scenarios due to both the long-term view and the systemic nature of climate change.

Foundational assumptions are the services or conditions, mostly outside of a business's control, on which the business relies to exist, operate and generate sustainable revenue. These have been relatively stable over the past few decades, and therefore have not been the focus of corporate strategy. Corporate strategy tends to focus on market forces such as competition, technology, consumers and regulation. However, systemic risks such as climate change require diving deeper (as illustrated by Figure 2: Foundational assumptions as building blocks of corporate strategy, on page 7).

Table 2: Examples of foundational assumptions

Foundational assumptions relevant for most entities	Business-specific foundational assumptions
■ Abundant and affordable energy (currently enabled by fossil fuels) ■ Democracy, enabling the rule of law that protect property and rights ■ Legal and regulatory framework allowing a business's operations ■ A functioning, globalised finance system allowing easy access to credit and potential investors ■ A stable monetary system ■ A continuously growing economy ■ A reliable and safe global trade system	■ Access to critical raw materials (animal feed, rare earth elements, coffee beans, fertiliser etc.) ■ A reliable electricity grid ■ Access to insurance ■ Free trade agreements ■ Predictable seasons (frosts, snow, glacial meltwaters, monsoons) ■ Continued growth in a particular market (e.g. housing)

Note that services that are part of a business's operational context can be services provided by nature.

Real-life example: An Asian hydro-electricity corporation built many facilities based upon two strategic assumptions: that there would always be glacial melt waters, and that there would be a predictable monsoon season each year. These strategic assumptions are no longer valid.

It is common for assumptions to be unexpressed or obscured in a corporate context, so this step should be approached with a methodical process to limit blind spots.

If a business already **mapped its value chain** (as advised in the XRB's scenario analysis guidance), this process should be straightforward.

One way of identifying a business's foundational assumptions is to start by listing all the key inputs and outputs and, for each of these, map their own dependencies.

In each scenario, identify which foundational assumptions are challenged and the potential consequences for the business.

After identifying the foundational assumptions, the goal is to assess to what extent (if any), the business will still be able to rely on these assumptions in its own climate scenarios. For example:

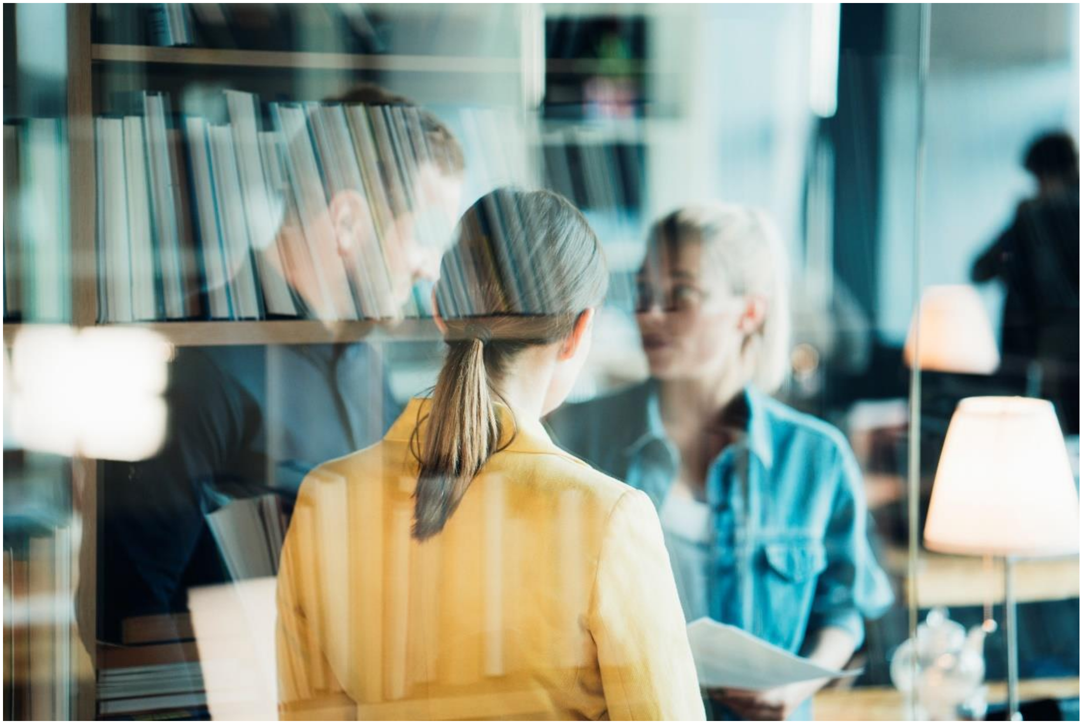
- A scenario consistent with limiting global warming below 1.5°C implies that fossil fuel consumption is limited and phased out (whether by regulation, market pressure, or technological breakthroughs). The key strategic implication is that the business will not be able to rely on abundant and cheap fossil fuels, creating a rationale for change. If the business's operations require access to abundant and cheap energy, then the need to rely on hypothetical new technology or economic tipping points (green hydrogen cost, price, and capacity of batteries, etc.) makes it a critical uncertainty for the business's future. However, the business can assess that in such scenario, it will still be able to rely on other services such as the rule of law, a functional finance system, etc., without which a successful transition would not be possible.
- A scenario consistent with global warming of greater than 3°C implies that fossil fuels continue to be widely used, but also that the physical impacts of climate change generate food crises, climate migration and catastrophic weather events that will strain the financial system, insurance availability, democracy, and infrastructure, on which the business relies.

Conditions for success

1 The strategic assumptions underlying the business's current strategy should be explicit.

2 Having a business's value chain properly mapped, will make the identification of services on which the business relies much more straightforward.

3 To be useful, scenarios need to be challenging enough. The list of foundational assumptions provided can be used as a litmus test: If none of these is challenged in the climate scenarios, this is a sign that the scenarios might need to be reconsidered.



1.4 Build the case for change

The case for change is the cohesive narrative that connects a business's purpose and vision with why change is needed and where. This case for change is what compels action. What this story is, and *how* it gets told, is important for success.

Once the business has identified the assumptions critical for its strategy, business model and operations, it can build the case for change, by seeking to understand its exposure and vulnerability to potential shifts in those foundational assumptions.

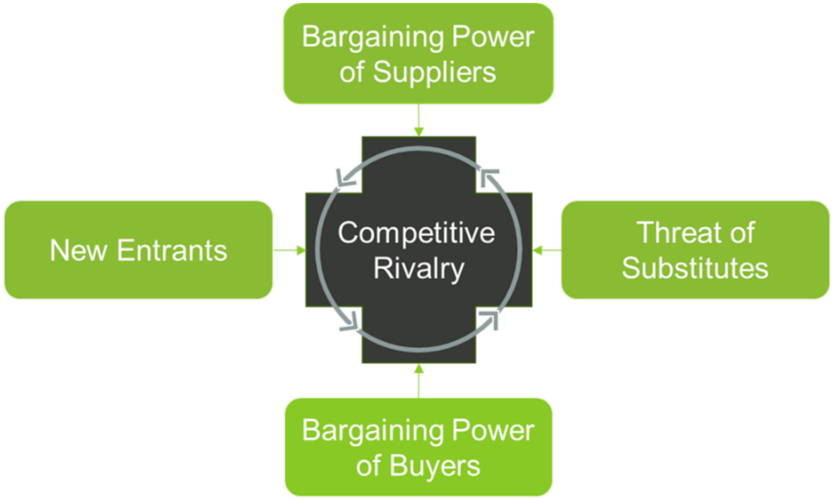
To do so, a business needs to understand its strengths, weaknesses, opportunities and threats in each of its climate scenarios.

This could be done using a **SWOT analysis**, informed by tools such as a **pre-mortem**. Some entities would have already done this during their scenario analysis process.

To complement this inward-look, **a business could do an environmental scan to analyse its value chain (and its key customers sectors) considering its climate scenarios, and asking itself how competitors, customers and suppliers might react in each scenario.** Going through the process of putting oneself in other value chain members' shoes can help a business stay a step ahead. Considering the moves of key competitors (and moves from other key players globally) is important and is often overlooked in climate-related scenario analysis.

Tools such as **Porter's five forces framework can be leveraged to do this exercise.**

Figure 4 Porter's Five Forces Framework



Once a business has identified the risks (and opportunities) to its strategy, business model and operation, it will be able to assess their severity in the context of its risk appetite and select risks responses accordingly.

However, when dealing with risks that are external and uncontrollable, interacting with each other and able to significantly change the operating environment, individualised risk responses become insufficient, and it is the strategy that needs to be adjusted.

If a business finds that its foundational assumptions are challenged in one or more climate scenarios (which is likely since scenarios need to be challenging to be useful), and this results in a business-as-usual strategy, business model and/or operations not withstanding this challenge, this is the case for change.

Conditions for success

1 Achieving buy-in from decision makers on the value of embedding climate into a business's strategy is key. Getting hands-on involvement from a business's leadership (e.g. writing of pre-mortems in climate scenarios) can help shift perspectives about climate change.

2 Human beings tend to overestimate their ability to manage risks. Acknowledgement that some climate-related risks are external and uncontrollable will help to drive a transition planning process.

3 Having a strong and well-articulated case for change is key to provide a business's leadership the confidence to champion it across the business.

Additional tools or methods to consider:
In his book *Using scenarios: scenario planning for improving organizations*, Thomas J. Chermack suggests a series of exercises with templates to highlight that each scenario will present unique threats and opportunities, as well as potential strategies to either take advantage of opportunities or compensate for threats.

Step 2: Formulate strategic intent

Executives' objectives

This step aims to answer the following questions:

- What is our vision of surviving and thriving in the uncertain future?
- What strategic choices can we make now to best position ourselves?

Executives will need to take a central role in co-developing the long-term strategic intent with the Board. Executives will aim to ensure its usefulness to inform the short and medium terms, to coordinate internal resources to ensure cross-organisation inputs, and of course be comfortable with delivering this long-term plan.

Planning for all eventualities over the long-term under high uncertainty is not possible nor useful. Focusing first on what is known (including known unknowns) enables drafting a direction of travel, as well as some rules of engagement for the people in the organisation to plan accordingly.

In practice, for a given business, the best value-proposition in a fast-transitioning world will rarely be the same as that in a world exposed to above 3°C of global warming. Beyond the differences in terms of physical impacts, the operational environment of the business will be very different in both potential future states of the world. Plus, the future will never play out as set out in any given scenario.

Formulating a strategic intent is aligned to typical organisational strategy setting exercises, with the addition of the climate change lens. Ideally, this step should be integrated into the business's existing strategy process.

What should be top of mind

As with step one, for many businesses, the responsibility of setting organisational strategy sits with the Board. However, executives play an important role as both a leader and the connection between strategy and operations. Key considerations for executives in this step:

- **How might you work with the board to ensure the strategic intent can be operationalised?** Executives have the unique position of managing the tension between the ambition and how it can be delivered.
- **How might you bring your management team and staff into the conversation so that the strategy is informed by insight?** Much of the climate change work (e.g. climate-related scenarios) has been driven out of sustainability officers and supporting functions. There is a wealth of knowledge and insight that should feed into this step.

How to – Practical guidance and useful tools

This step is the most 'hands-on' for an executive. There are three main actions in this step:

2.1 Envision success in different futures

2.2 Generate and refine strategic options

2.3 Express your strategic intent

2.1 Envision success in different futures

Setting clear and concrete strategic direction while facing deep uncertainties is challenging. While businesses might be used to demonstrating some tactical flexibility to adjust to shifting markets, the idea of multiple possible strategic directions at once can be unsettling.

Waiting until uncertainties decrease is unlikely to be a viable option: by the time climate-related uncertainties are resolved, a business might be locked-out of its best strategic opportunities and have locked-in liabilities (e.g., stranded assets).

The goal for most businesses will be to define enough strategic direction to enable action, while keeping options open, and pre-positioning itself to pursue its opportunities and manage its risks across the range of potential outcomes explored in its scenarios.

To do this, businesses can explore what the business's long-term value proposition(s) could be in the different possible worlds, as this will provide insights to express its strategic intent.

This means exploring the questions:

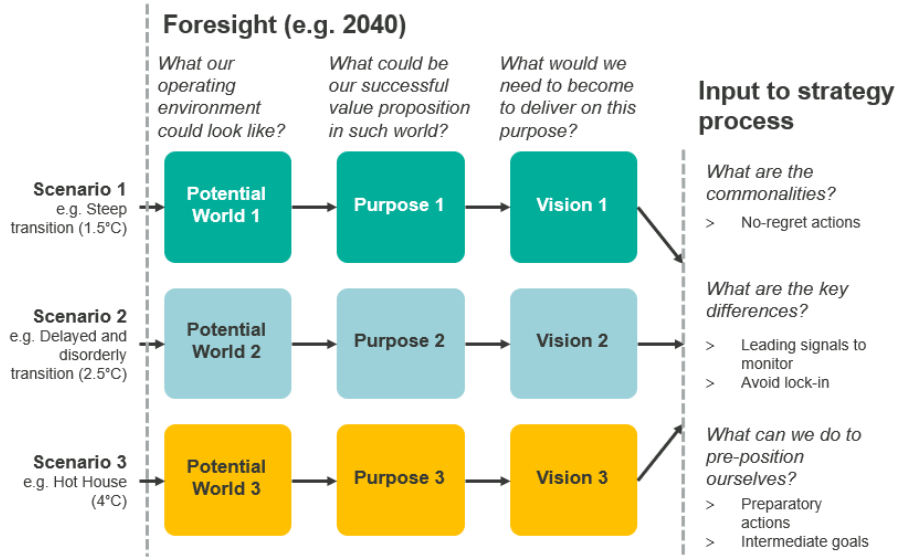
- What would the business's value proposition(s) be in each of these potential worlds?
- What might the business ideally look like under each of these scenarios by 2050?

For transition planning, starting from the value proposition(s) rather than the vision statement is likely to result in better outcomes given the potential scale of changes in the operating environment in each different climate scenario.

A vision statement defines what an organisation aspires to be or become (i.e. the desired future position of the organisation). A value proposition is the reason a customer connects with an organisation and believes that it is going to be able to solve their problems. Some large and complex entities might have to explore several value propositions (i.e. for different markets) in any given scenario, and they might want to reflect these in a vision statement. However, for entities with a simple model, vision and value-propositions may completely overlap.

Figure 5 illustrates this envisioning exercise. A business imagines its most desirable value proposition(s) in different possible operational environments in several, very different, potential future worlds, based on the insights it has. This will, in turn, inform what the business would need to become to be successful in each of these different future worlds, and the gap to bridge compared to the current situation.

Figure 5: Linking strategy with scenario analysis



Source: Protecting New Zealand's competitive advantage | Chapter Zero

Applying tools such as **BCG's growth matrix** to each scenario can support this exploratory exercise. This can fuel the discussion around which markets or offerings (products, services, business models, etc.) would be expected to thrive or wither under each scenario and help to start identifying the potential new markets on which a business might want to position itself for.

Figure 6: BCG's growth matrix applied to different scenarios

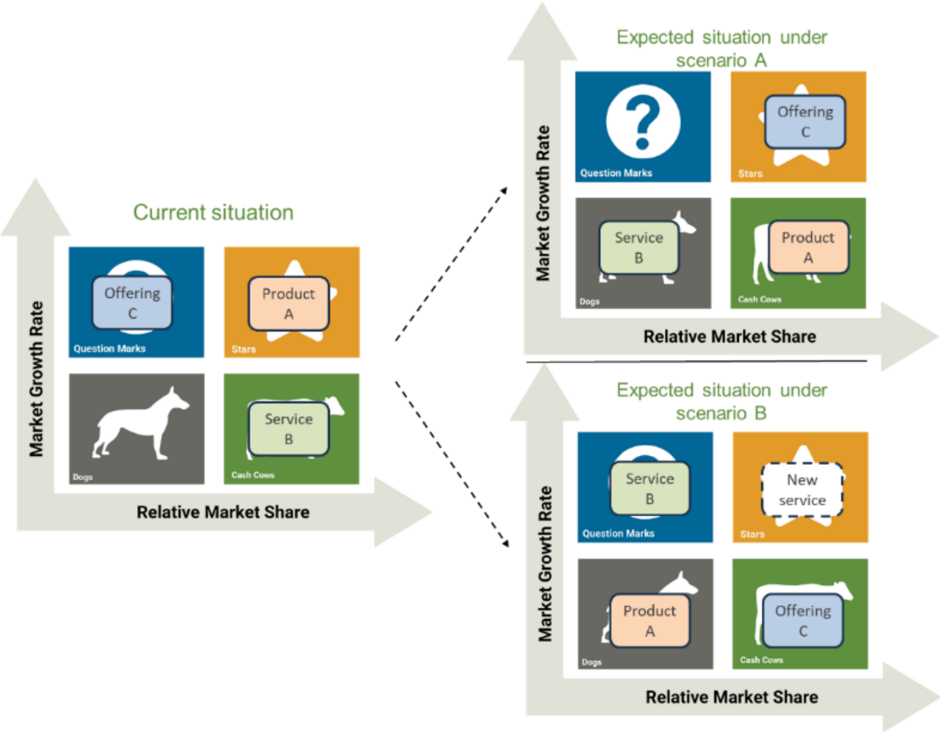


Figure 6 illustrates how this common strategy tool can be applied to different scenarios. In this example, the business mapped the current situation of its offerings, services and products in the matrix. Then, it looked at what each scenario would mean for these products. In one scenario (A), they expect their offering C to be very successful but also that their current 'cash cow' (service B) will become much less profitable. In the other scenario (B), they expect their current star (product A) to fail and that their offering C will become the business's new cash cow. They are unsure how their service B would fare in such environment. They also identified an opportunity for a new service they could deliver to cater for an emerging market.

The insights they get from this are:

1. The current cash cow is going to wither in both scenarios.
2. The future main source of revenue for the business will be different depending on the scenario.
3. Offering C, on which they were currently unsure, is expected to do well in both scenarios.
4. Product A would be critical in one scenario but would fail in the other.

This provides a clearer picture of the different value propositions the entity will aim for in the different scenarios. Then, based on these insights, they can plan to adjust the entity's resource allocation: not over-invest in service B, develop offering C, monitor leading indicators to inform investments in product A, and explore further the new opportunity identified.

Comparing the outputs of the SWOT analysis and the BCG's growth matrix helps highlight further blind spots, gaps, and opportunities, in turn enriching the entity's picture of its potential future, which will inform strategic thinking.

Narrative exercises describing how the entity successfully thrived under each of the scenarios (i.e. 'success stories') can enrich the strategic thinking and refine the vision for the entity as well.

While the future cannot be predicted, identifying the key commonalities and differences between the success stories of different scenarios can provide useful insights. Commonalities between scenarios can provide confidence in making some decisions subject to fewer uncertainties. Key differences between the scenarios can inform an entity on what it needs to monitor and what preparatory work might be useful.

For example:

- a business anticipating that a product it provides would be either surpassed by very low emissions alternatives in a quickly transitioning world, or would face much lower demand in a warming world, might decide to stop its investments in this product as a consequence, and opt for an extraction or **divestment** strategy for its related assets.
- a business envisioning radically different markets for its products from one scenario to another would seek to identify leading signals to monitor how the related uncertainties trend. It might also seek to pre-position itself for opportunities by doing research or pilot projects. Such preparatory work shortens lead time to seize opportunities at later decision points and thus reduces risks.

In any strategy renewal process, if the business's current overarching purpose or vision are at odds with the direction of travel identified, they will also need to be reviewed in time.

A key message is that the specificity or breadth of the choice of vision matters. For example, a shipping company may decide it wants to transform itself into a) a mobility company, b) a sea mobility company or c) a low-emissions shipping company. Those three different options include inherent choices about technology, markets and the associated scope of its focus. To help inform those judgements, ensure those decisions are made explicitly as part of this step.

A balance will need to be found between being too specific, unintentionally closing-off viable options, and being too broad to provide a useful direction of travel.

Real world example – Volkswagen Group

Volkswagen was a multinational conglomerate manufacturer focusing on internal combustion engine (ICE) vehicles from the 1930's to the 2010's.

In 2015 Volkswagen's focus was to become **the world's largest auto maker by 2018**. In **2016** it announced a new strategy following the infamous 'Diesel gate' scandal (of 2015) which noted Volkswagen is '...completely repositioning itself with the TRANSFORM 2025+ strategy... the brand will invest in e-mobility and connectivity... It creates the prerequisites for the transformation from a pure automotive manufacturer to a successful mobility provider in the age of digitalization and increasing e-mobility'. This was referred to as the biggest transformation change process in Volkswagen's history. **2021** saw this shift in direction further committed to, with its New Auto strategy. The strategy was based on transitioning to electric cars, building a shared platform, battery systems, software and mobility solutions. It now aims to have six battery factories in Europe by 2030. See also **Strategy | Volkswagen Group (volkswagen-group.com)**.

This example shows how the language evolves from 'automotive manufacturer' over time towards 'a mobility provider' to open the space for the software side.

Conditions for success

1	Participants being familiar with the concepts of "value-proposition" and the distinctions between "vision", "purpose", "strategy", and "plan".
2	Hands-on involvement from a business's leadership is key: They need to believe in the visions they will need to sell to the organisation
3	Preparatory work and facilitation will largely determine the added value of this step. People representing the business's strategy function should have done the preparatory work and research to feed into the conversation. Consider using a facilitator to support the envisioning exercise.
4	Early involvement (at this step) of senior representations of the key functions (strategy, risks, finance, etc) that will need to be involved in next steps is advised.
5	Participants' awareness that starting from the business's current state would result in a much narrower view of potential futures. The goal is to start from potential future versions of the world and work back to what the business would need to become, and therefore what would need to happen.

2.2 Generate and refine strategic options

Once the business has greater clarity about the potential playing field it should aim for in different scenarios, it can start thinking about what it could do to win on these playing fields: What are the strategic options available? Which ones are the most promising?

To do so, it will need to work out what its strategic options are, and then assess which are the most likely to be successful.

In transition planning, the number and scale of potential changes, and the uncertainties attached to them, can be overwhelming. While it can be tempting to narrow the scope before diving into ideation (the creative process of coming up with ideas), it would likely result in generating a list of marginal options that are mere increments from the current situation (see the concept of carbon lock-in). The benefit of looking at long timeframes is to be able to think beyond this incremental mindset. There are other ways to make the process more palatable.

Use an open-ended and systematic process

A useful framing to enable wide enough ideation is to think in terms of 'value proposition', 'problem to solve' or '**jobs to be done**'. This means, instead of starting from existing activities, products, or services, start instead from the problems the existing offering is solving (or jobs it is doing) for customers or service recipients. For example:

- Battery makers are not actually in the battery market, but in the 'portable energy' market, and it just so happens that currently batteries are a relevant option to provide portable energy for some uses. That might change in the future, as happened with the photography market where electronics replaced film[7].

[7] EECA – **Innovation and the transition to a low-carbon future**, 2021, page 11.

- A company that specialises in making steel products could see itself in several ways: as an expert in steel, competing with other materials, or as an expert in manufacturing solutions for the construction and industry sectors. Steel happens to be the most competitive option for many use cases in the construction and industry sectors today, but that might change. If the company sees itself as a steel expert, then it could aim at promoting the use of steel, seek to procure low-emissions steel, and/or partner with businesses that have expertise in other materials to leverage the unique property of steel while staying relevant. Alternatively, it could diversify into other materials to maintain relevance in its core markets.

Using such framing offers the opportunity to link the problems that the business is currently solving to the various climate scenarios: these problems might be much less of a priority or even relevant for customers in some scenarios, while new problems for which the business would be well placed to solve could become much more valuable for these customers (or new ones) in the future.

This framing also helps to link to the business's business model and strategy, which is deeply connected to its value proposition: If a business's current value proposition is at risk of becoming redundant then this calls for a strategy renewal.

Many entities will solve various problems for different customers: For example, a dairy company provides both 'proteins' and 'ambient temperature conservation' with its milk powder, as well as 'pleasure' and 'refreshment' with ice cream or dairy drinks. Once again, a look at the various messages from advertising and the company's brands' respective positioning illustrates this.

That is one way to keep the ideation of strategic options manageable: taking it one value proposition at a time, or market by market (as different markets might call for different strategic approaches. See 'The strategy palette: The right approach to strategy depends on the environment').

Then, guiding questions can be formulated for the ideation process to start.

Examples of such questions are:

- How could we keep solving our customers' problems without GHG emissions?
- Which new problems would our customers need to solve in each of our climate scenarios? How would we solve these?
- Which new problems would we be well placed to solve in each of our climate scenarios?
- Which actions could we take to make our desired future more likely?
- How do we continue to survive and thrive while reducing our GHG emissions and building resilience, in the context of systemic change?

Note that having defined and communicated the criteria to assess these options ahead of the ideation would help stimulate the process.

The following real-life examples illustrate how businesses have undergone transformations in response to changing customer problems and needs. While not explicitly relevant to the climate change transition, the strategic thinking and repositioning are can be applied in the transition planning process.

Real world example – Elmhurst Milked

Elmhurst Milked (previously Elmhurst Dairy) undertook a business model transformation after nearly 100 years as a dairy milk manufacturer. It transformed to become an alternative milk manufacturer, shutting down its prior processing plant. It did so by bringing a '**revolutionary HydroRelease™** cold-water mechanical milling process' to market, by partnering with someone with existing capability in that area. This also involved product innovation including developing new milks using peanuts, oats and brown rice.

Key drivers of change cited prompting the transformation was that 'Henry was concerned, but also intrigued by a steady decline in dairy consumption and the changing American diet. More and more people were eating healthier, adopting plant-based alternatives, and becoming mindful of environmental impact. So was he. American milk consumption is on a major decline — dropping by more than a third since the 1970s.'

This example shows a clear change in direction associated with a complete business model and strategy transformation in response to perceived change in customer preferences and other drivers of change.

Real world example – Fujifilm (or the 'Kodak story')

In the 1980s, Fujifilm was second largest in the film business to Kodak. Fujifilm explored new opportunities, created new digital products adjacent to its more analogue film business (such as magnetic tape optics and videotape) and branched into copiers and office automation, through a joint venture with Xerox. Recognising the disruptive potential of digital, Kodak created a digital camera (before Fuji or others). It also invested in the technology and understood that photos would be shared online. It acquired a photograph sharing site called Ofoto in 2001, which it used to attempt to get more individuals to print computerised pictures, rather than share them.

This example shows that companies often see disruptive forces affecting their industry/s. They divert resources to participate in emerging markets. However, managing this disruption is very difficult because it can entail a mix of business model changes, joint ventures, acquisitions to help to successfully realise opportunities or commercialise new technologies and disruptive innovation from competitors. As noted **here**, 'failure is usually an inability to truly embrace the new business models the disruptive change opens up'. In this example 'realizing that online photo sharing was the new business, as well as a way to expand the printing business.'

Assess strategic options

Once the business generates a long list of potential options, it needs to assess and compare these to determine which ones would be the most promising for the business's transition.

While a business will seek to bring a healthy pool of options into detailed transition planning, this first triage and prioritisation will aim to avoid wasting time and resources on too many options.

Moreover, the process of defining the criteria to assess the options is integral to defining the business's strategic intent

Note: Refer to ***step 6.4 described in our entity-level scenario analysis guidance*** *which should be considered as a primer for this deeper, more systematic, and action-oriented approach.*

Each business will have to define its own set of criteria, some of which might be different between categories of options (e.g. mitigation, adaptation, market, technological, etc).

Below is a list of criteria to help dismiss options and prioritise the more promising ones:

Area	Description
Value the option may generate for the business	Market, cost savings, resilience, risk mitigation, etc. Using categorisations such as operations, revenues, assets, liabilities, and finance can also be useful to map where the value is generated.
Fit with scenarios	In which scenario does this option work? Does it fit in a pathway leading the business to its long-term objectives? *e.g. Small iterative improvement options leading to short term wins but missing a net zero goal (i.e. carbon lock-in) would be filtered out here.*
Challenge, complexity & uncertainty	e.g. For the uncertainty of technological options: 'blue sky' requiring major external technology breakthrough outside of the business's reach, 'ambitious' requiring the business partnering with many others, 'innovative' within the business's reach with some partnership, or 'in-house'.
Time horizon	Is this option readily available or a very far away prospect? Is this option helpful for short-term challenges or specific to long-term horizon?
Flexibility/Commitment	If we are wrong, how hard is it to pivot? Is it scalable to be ramped up progressively or is it a one-off?
Scale of investment required	e.g. Is more than 100% of the business's current asset base required, more than 50%, more than 10%, less than 10%, etc.

The business might exclude options that are too narrow, out of its reach, requiring a commitment considered too steep, not generating enough value, or leading to a lock-in contrary to its long-term goals.

Then, the goal will be to compare the remaining options to prioritise them.

An indicative list of questions to help inform that prioritisation:

- Which are the most attractive options in each scenario?
- Which are attractive options across all scenarios? (even if not the most attractive in each)
- What contingencies could protect attractive options in scenarios in which the option is weak?
- How could options be combined?
- What would our competitors' reactions be?
- What new or existing collaborations could accelerate the realisation of these options?
- How can we develop our ability to execute (e.g., timeframes, resources required, success factors, capabilities) in a timely manner?
- Which business model would be possible?

Note this is not necessarily to make concrete decisions immediately, but to inform the planning part of the transition planning process.

This process is by no means linear or one-off: New option will continuously be identified, assessed, and tested. A business that prioritises a culture of innovation and adaptation will be more likely to succeed.

Real world examples - BYD

BYD is an electric vehicle manufacturer with business lines across rail transit, renewable energy and electronics.

It has now chosen to vertically integrate into sea freight. It has already built and is now using its own new ship. This is **reported** to be 'the first of a massive fleet that BYD is building, it reflects the Chinese company's ambition to establish a seafaring business that supports its new role in the global car trade.' In the strategy literature this can be referred to as **adjacency growth.**

This is an example of a tangible action that reflects its broader strategic direction as a low-emissions, low-cost car manufacturer.

Conditions for success

1 Enabling inputs from creative people and seeking out open-ended questions. Innovation is the result of a cultural context.

2 Participants' understanding that the selection criteria should be set with a long time horizon in mind and that the options won't be very detailed at this stage.

Additional tools or methods to consider:

- Problem structuring methods
- Strategic options development and analysis (SODA)
- 5 templates for innovation
- Analytical Hierarchy Process
- Pareto Analysis
- 7 techniques and 5 tips for developing strategic options

2.3 Express your strategic intent

In this step, the business's leadership will define the strategic intent to start the journey and preparations while keeping options open. The expression of the strategic intent is made possible by the insights gathered during the previous steps and the scenario analysis process.

The 'strategic intent' is comprised of the following, and each sub-part of this step is focusing on one of these key components:

- The business's long-term potential objectives to prepare and position itself
- The options that will be implemented (i.e., no regrets options)
- The strategy to adopt regarding existing operations, markets, assets, etc
- The critical uncertainties to monitor and how they relate to decision points down the line
- Acknowledgement of unknown unknowns and how the business builds adaptive capacity to respond

Once a business has articulated its strategic intent (made of the elements listed above), the planners[8] will be able to start drafting the details of the transition plan, working on the sequencing, dependencies, lead time, financing, etc.

It is crucial for a business's leadership to provide as much clarity on the strategic intent as they can to the rest of their organisation. Failing to do so (for example, by providing a vision that is considered too generic, only operational targets, or keeping information too close to the chest) could lead to a business getting stuck in an infinite iteration loop: too many variables, an inability to look at sufficiently long horizons, difficulties to collaborate across teams around poorly defined objectives, etc.

One way to test the usefulness of the choices made in the strategic intent is to ask the question "Is the opposite of the choice stupid on its face?"[9]. If the answer is yes, then chances are that the choice is stated at such a level of generality that it is not that useful.

Strategy is informed by scenarios, but is not driven by it

Before deciding the most appropriate strategy approach, a business's leadership could discuss and identify the high-level strategy themes on which they can agree. Like in any negotiation process, starting by expressing the obvious ones which everyone can agree and then moving forward until divergences of views raise the need for discussion can save a lot of time and create a better framing.

More specifically, having challenging and diverse scenarios is useful to identify risks and get insights, but scenarios are not predictions of the future, nor does it mean that a business will define a strategy for each and wait to see which scenario eventuate (as none of them will).

It is up to each business to decide what to do with the insights gathered so far and set its own strategy. For example, a business's leadership can decide to ignore some risks in its strategy. They will, however, need to be able to articulate the rationale for doing so to their primary users if asked, or if they choose to include this information as part of their disclosures.

This is not about a business developing a detailed strategy or transition plan for each scenario, but rather articulating which strategy it intends to take and how it relates to the climate-related risks and opportunities it has identified.

[8] Here, 'planners' is meant as anyone who is involved in building the detailed transition plan.

[9] See Is or Is Not The Opposite Stupid on its Face? | by Roger Martin | Medium

It is important to distinguish strategy and risk management here. A business can make risk management decisions not aligned with specific scenarios, such as designing all its adaptation actions with at least an RCP 8.5 climate projection in mind, as it considers it is an appropriate margin in the face of the uncertainties of how climate change may unfold. It can also make strategic decisions such as aiming for zero emissions by a certain date for market access/retention reasons, even if it does not necessarily think that the global transition will be as fast as it is in its 1.5°C scenario.

The strategy palette: The right approach to strategy depends on the environment

Transition planning means entities are asking themselves, "how do we continue to survive and thrive while reducing our greenhouse gas emissions and building resilience, in the context of systemic change?".

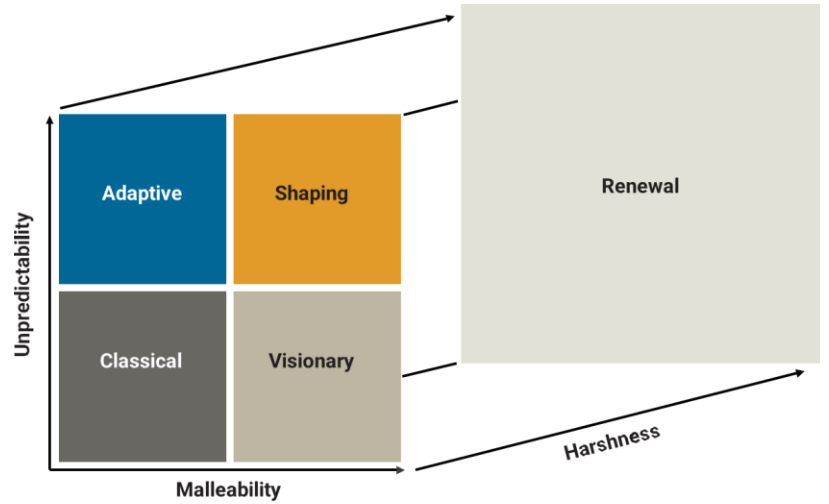
To formulate a business's strategic intent, its leadership needs to articulate which strategy(ies) it intends to follow for its various operations, assets, markets, etc. This can be informed by insights from previous steps such as the SWOT analysis and the BCG's growth matrix.

The environments that entities operate in are not uniform and there is no one-size-fits-all approach to strategy, as illustrated by the **Strategy Palette** (Figure 7), a common framework used to guide a first broad approach to strategy depending on the operating environment conditions.

A key insight of the Strategy Palette is that business leaders tend to overestimate the predictability and underestimate the malleability of their operating environment, and thus overuse (often unconsciously) the most widely known 'classical' or 'planning' approach to strategy. However, there are other approaches to strategy that could better suit their context[10].

[10] This table from the Harvard Business Review summarises the pairings of strategy-environment.

Figure 7: The strategy palette from BCG



Sources: Henderson (1970), Lockridge (1981); Nadler & Tushman (1994, 1995); Abell (1999); Wiltbank et al. (1006); Reeves et al. (2011, 2012, 2015).

No organisation wants to find itself in a position where it would have to resort to a **renewal strategy** (i.e. trying to survive until it reinvents itself) and will instead prefer to become more **adaptive** (i.e. continuously experimenting and adjusting) when its operating environment becomes very uncertain.

The systemic nature of climate change suggests the need for more adaptive approaches to strategy.

> "Whichever options are ultimately incorporated into the company's strategy; the strategy should be an adaptive one — one that can make midcourse corrections based on observations of the climate and economic systems. It should be adaptive so that it can take into account uncertainties around future developments; for

> example, the possibility of large and/or abrupt climate changes and/or of technology breakthroughs that significantly lower projected costs of strategic initiatives. Adaptive strategies allow a company to make corrections in its strategy along the way and avoid significant errors."
>
> TCFD Scenario Analysis Guidance, p39

Entities should consider the potential need for strategy **ambidexterity** – being able to apply multiple strategy approaches either over time or over different parts of the business. For example, a business might choose to take a classical approach to its existing markets but a different approach (such as shaping or visionary) to areas of opportunity that are considered likely to be key parts of how the business will ultimately operate in a low-emissions, climate resilient world.

For example, an airline company may take a shaping approach to sustainable aviation fuelled long haul markets and a visionary approach to electrically operated short haul markets, while taking a classical approach in the short-term to traditional long and short haul markets. A business striving to take a more adaptive approach to strategy may struggle to implement such an approach across all parts of the business or across all major strategy issues at once (across risks, opportunities, mitigation, adaptation). Ambidexterity can help a business manage the phase in of a more adaptive approach or enable an adaptive strategy in areas where it is most needed.

No regrets options

Some options will improve a business's position in any scenario. Or a business can decide to commit to some options, regardless of the uncertainties, based on their strategic calls. They can also assess that the upsides of starting to implement an option are greater than the downsides (e.g. a small investment).

While it could be argued that such decisions can be made later or do not need to be part of the transition plan, it is important to test those shorter-term decisions in the context of longer-term goals, to get more detailed insights and avoid two pitfalls:

1. **Lock-in:** Some options can appear as 'no brainers' in the short term but can present hidden costs in the form of stranded assets or extra costs if the organisation must change direction.
2. **Timeliness and right sizing:** An option being a good idea in all scenarios does not necessarily provide the information about the best time to implement it, nor how much of it the organisation should commit to.

This contextualisation of short-term decisions with long-term goals can allow a business to be opportunistic and avoid wasting resources on projects that are not aligned with the long-term plan. For example, a business's leadership can signal an appetite to diversify or expand into a given market. By doing so, its employees can look for related opportunities (e.g., acquisition of cheap assets) and redirect business development efforts accordingly. Note that in this occurrence the no-regret decision is not an action, but it is still a direction specific enough to be helpful for the rest of the organisation.

> It might be helpful for leaders to ask themselves in a systematic way "What can we decide right now about [...] so our organisation can start its transition now?":
>
> - Emissions reductions
> - Resilience to physical impacts of climate change and their cascading impacts
> - Risk management
> - Identifying and preparing for opportunities.

An alternative way of ensuring a systematic coverage of no-regret options could be by type of financial impacts (revenues, expenses – capital or operational, assets, liabilities).

The specifics do not necessarily need to be predetermined (e.g., timings, scale, or priorities). It can take the form of targets but is not limited to it. The goal is to provide useful direction, while leaving wiggle room for the detailed transition planning to sort out the practicalities and rationalise them.

Remaining uncertainties and preparing for timely future decisions

While some decisions can be expressed from the beginning, critical uncertainties will remain. Articulating these uncertainties and establishing clear links to the future decisions they would impact is integral to the expression of the strategic intent.

For example:

- How much retreat in globalisation will we face and how fast? This will inform how we prioritise our market development.
- Will we still be able to access reliably cheap fossil fuels? This will inform the speed of our energy transition.
- Will we still need process heat to make our products in the future? This will inform our asset management schedule and our emissions reduction plan.
- How successful will alternative proteins be in terms of consumers' adoption and production costs? This will inform our acquisition and divestment strategy.
- Will we still be able to source coffee beans on the open market in the future? This will inform our supply chain strategy.
- Will we still be able to invest confidently in Country X and how much will we be able to rely on the availability of global finance? This will inform our investment plan.
- How fast will car insurance will become unaffordable for most people? This will inform the pace of our branching into other insurance products.
- Where will managed retreat happen and over which timeframe? This will inform our lending policy for the mortgage market.
- How much physical impacts will impair the agricultural sector profit margins in New Zealand? This will inform our lending policy to limit defaults in this sector.

Defining uncertainties and establishing clear links to future decisions as clearly as possible will specify where leading indicators are needed, and help planners think about which preparatory steps might be needed, how much lead time would be required, and therefore when these preparations must start to get the necessary insights in time.

Preparatory steps can be any action supporting the business to inform future decisions or position itself to be able to make these decisions. Examples of preparatory actions are:

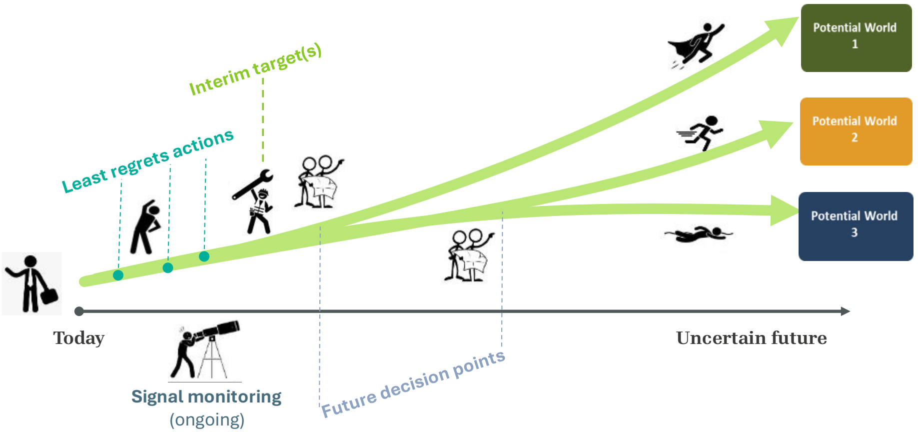
- Research (market research, technology scans, etc.)
- Partnerships, mergers, acquisitions, collaborations, etc.
- Pilot projects
- Market development.

As a business gets more insights, promising options will be tested further (e.g. trials, pilots), some options will be abandoned, and new ones will emerge.

The strategic intent

Once the key components have been defined as clearly as possible, together they form the strategic intent. Figure 8 below is a simplified representation of how these components come together to enable the entity to start planning its transition journey.

Figure 8: Business analogy of the strategic intent



On the figure, the business, building on its scenario analysis, has envisioned what it might need to become to deliver a value-proposition relevant to the various worlds it might ends operating in. From there, the business is trying to chart a course to bring it closer to these potential destinations (value-propositions). It has already decided to implement some changes that will be helpful for the journey or will help it be ready for its future transformations (no-regrets options) and set interim targets reflecting how it wants to pre-position itself ahead of big choices. It has identified the signals that it would need to monitor (remaining uncertainties), which will inform in time which destination is more likely. And it has pre-identified key milestones where significant decisions will need to be made. With this, the leadership has provided enough direction to get the business into action, eyes wide open to navigate uncertainties.

Conditions for success

1 The strategic intent should be formed collaboratively through engagement with a wide range of stakeholders across all parts of the organisation.

2 The strategic intent should provide a roadmap acknowledging the uncertainties but identifying and tracking the key ones, while making choices now to prepare and position itself to best navigate its transforming operating environment.

Additional tools or methods to consider:

- Capability and Maturity
- Capabilities and Competences (capability-based strategy)
- Flexibility Framework
- Quality, Time, Cost & Flexibility
- Time Framework
- Strategic Choice Approach
- Strategic Assessment Model
- Conflict Analysis

Step 3: Planning

Executive(s)' objectives

The value of planning is to check feasibility, help manage priorities, identify dependencies, anticipate avoiding lock-ins and seize opportunities, and optimise costs.

This step aims to answer the following questions:

- When do we need to make which decision?
- Is our plan aligned with the timing of expected risks and opportunities?
- Is this draft transition plan financially sustainable?

Drafting a transition plan is translating the strategic intent into an action plan, which is squarely management's role. Executives will have to ensure that cross-organisation collaboration is happening to develop the plan. They will also need to iterate with the Board when the planning surfaces new insights that might impact the strategic intent, such as the effectiveness and feasibility of the plan.

Ideally, this step should be integrated in the business's existing planning process and where applicable, transition plan elements can be integrated into existing plans.

What should be top of mind

The planning step involves the operationalisation of the strategy that underpins the transition plan. As executives are accountable to the board for the delivery of the transition plan, they need to provide leadership and oversight over this step of transition planning.

Key considerations for this step include:

- **Providing visible leadership** that demonstrates the direction the organisation will head in. Communication and transparency will pay dividends in building trust and confidence for the teams to embark on this journey. Effective communication makes or breaks change initiatives. Striking the right balance between the challenges (e.g. the inevitability of change) and the opportunities (e.g. there is a path toward success, and everyone will have a role to play) will be key.
- **Empowering staff and planners** across the organisation to get on with the planning. They will need to understand the big picture of the strategic intent (Step 2), the 'what' but also the 'why' to play their part effectively. Ensuring sufficient financial and people resources are available as well as sufficient headspace for the teams to get on with it – avoid the temptation to get stuck in the detail!
- **Help remove roadblocks**, create clarity or resolve competing priorities.
- **Ensure consistency** between operationalisation and the overarching transition planning strategic intent. Due to the complexity, beware of teams being side-tracked or pushed down a different direction.

How to – Practical guidance and useful tools

There are four main actions in this step:

- 3.1 Communicate the strategic intent to the wider organisation
- 3.2 / 3.3 Develop a detailed transition plan
- 3.4 Assess the financial implications of this plan

3.1 Communicate the strategic intent to the wider organisation

For some people, this will be the first time they hear about how climate change is impacting the organisation, and how this is anticipated to affect everyone within the organisation.

> With executives being both leaders and doers, the task of building buy-in for the transition through effective communication falls on them. Employees must understand the urgent need to disrupt the status quo. A compelling "why" can help them navigate the inevitable challenges that will arise during a transformation program. Many of the workers who took HBR's survey said that they "wanted" and "needed" the vision to be communicated clearly. When leaders share a clear vision, the workforce is more likely to get on board. But if people don't understand the vision or need for transformation, success is hard to achieve.
>
> ***HBR's*** *6 Key levers of a successful organisational transformation*

There are a wealth of resources entities can draw on around **change management** to support this communication to the wider organisation. Key insights from change management include:

- Start with why: Expressing the need for change clearly.
- Take the time to explain the process leading there.
- Be open about uncertainties, and the need to build the plane while flying it.
- Hearts and minds: Rationale is important, but purpose is one of the most powerful human motivators.
- Provide clear expectations and mechanisms for people to be actors of change, not passive collateral.
- Convey that there is a long-term future for the organisation and a high-level plan to pro-actively navigate the uncertainty(s) ahead.

Conditions for success

1. Ownership and buy-in are key: An executive that does not invest time to deeply understand the 'why' and be comfortable and enthusiastic about delivering this transition will find it hard to communicate effectively and embody the necessary leadership.

2. Make sure that people across the organisation understand that transition planning is a collective co-construction exercise, not just a side project that only the planners or project manager are responsible for. Set clear the expectation for all functions to provide the proper support to the planners.

3.2 / 3.3 Develop a detailed transition plan

Actions 3.2 and 3.3 are combined in this section due to the same role that executives can play in these actions. For more practical detail, see the ***Staff guide***.

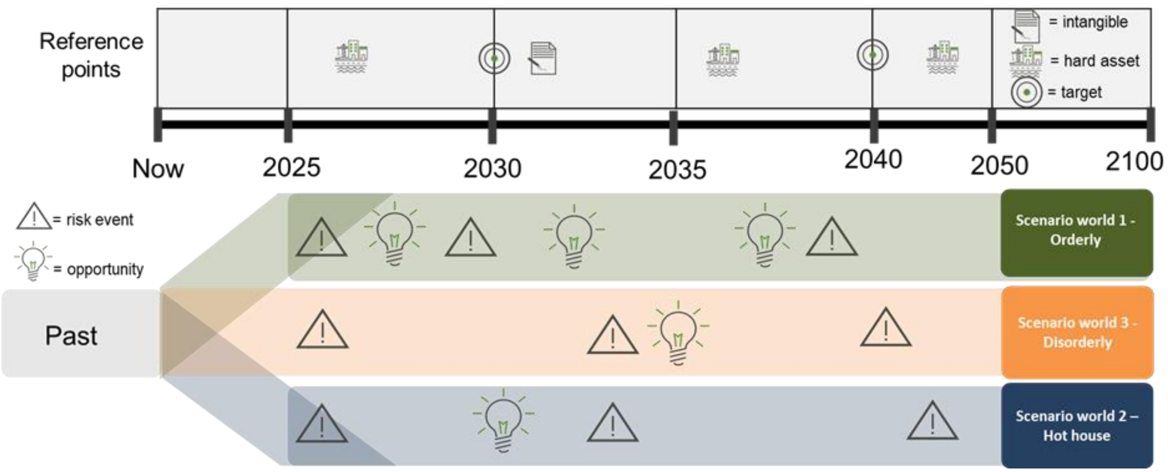
The backbone - Map out milestones, risks, and opportunities on a timeline

The main challenge of transition planning is to align many actions, with many dependencies, amongst many uncertainties, and planning for several directions at the same time. To be actionable, manageable, and communicable, these actions need to be split into several projects, by business unit, business centre and functions.

References on a timeline provide a starting point: Milestones, constraints, and a direction of travel. In an adaptive strategy, timing is everything. Therefore, the first task for a business's planners is to identify key milestones and position them alongside potential risks on a timeline. Then, they will have to identify the lead time for critical options, so they identify and position decision points in time, by applying retro-planning.

The role of the executive(s) will be first, to ensure that there is an owner for this process within the organisation (e.g. the Sustainability Officer or strategy team). Then, the executive(s) will need to set expectations, track progress closely and provide regular opportunities to address issues and provide inputs.

Figure 9: Illustration of mapping exercise



Flesh out – Actions, feasibility and optimisation

The timeline with elements mapped against it acts as the 'backbone' of the transition plan. It is then the role of planners across the business to develop the detailed plan, with the objectives being to:

- **Distil intent into a set of actions** for each part of the business' operations. This means investment projects but also changes in processes, procurement policies, etc...
- **Sense-check the feasibility** of the transition plan: Is there a practical pathway to get the business to where it wants to be, in time? This includes dependencies, sequencing, indicative costing, risk appetite and revenues.
- **Avoid lock-ins** (or flag those that can't be avoided well in advance).
- **Optimise** the plan (cost-effectiveness, flexibility, timeliness, etc).

Executives will have set expectations and clarified RACI matrices, including who is responsible for cross-organisational coordination and managing interdependencies.

As leaders, executives will strive to be the objective voice that tests staff against the objectives above and the alignment with strategic intent.

It is important to regularly keep the Board across this work to allow for quick and agile iterations when new critical insights emerge.

Executives will also have important inputs to weave into defining the actions to take to improve their business' resilience, based on past "hits and misses": recalling instances when the firm was late in seeing threats and opportunities and had to react — a clear 'miss'. The 'hits' are when key trends or turning points were seen in time to plot the best moves. The leading question would be "Was there a recurring reason why some events were seen in time and others were missed?".

Toyota reap the benefits of improving the resilience of its value chain

"Toyota executives absorbed some hard lessons after the Fukushima earthquake and the resulting tsunami disrupted their supply chains in 2011. They learned that their famed Just-in-Time production system, with parts reaching their assembly lines only when needed, was an acute point of vulnerability for critical items such as the chipsets powering the onboard computers in their cars.

In a change in practice, Toyota suppliers were required to hold a buffer stock of chips to satisfy Toyota's requirements for up to six months of production. To add resiliency to their supply chains, Toyota began to practice parallel sourcing. They now have several suppliers of critical components in case one should falter, as happened during the early stages of the pandemic in 2020. Because Toyota learned to protect their supply chains, they were able to operate at 92% capacity, while Ford and GM operated at 60% percent production capacity in the first half of 2021."

How Firms Can Overcome the 'Paradox of Preparedness', July 11, 2022, George Day, Roger Dennis.

3.4 Assess the financial implications of this plan

Once the costing estimates of the remaining options have been refined during the planning process, the business can explore implications for revenues, costs, capital needs and what it would mean for the business's financial situation. This exercise will prompt not only financial questions, but also strategic ones.

The objective is not to develop overly detailed business plans for all potential projects, as the uncertainties around future costs would render it a wasteful exercise.

This should be approached as both:

- **A sense check:** 'Do we ramp up new sources of revenues fast enough to compensate decline in X?', 'What would it mean for this asset to be stranded earlier than expected in scenario X?', 'What if the maximum cost of this input that we can sustain before activity X becomes unprofitable?', etc...
- **A means to identify early financial challenges and solutions:** 'How much capital will we need to invest over period X? How could we achieve that?', 'Is our pace of ramping-up/winding down in market X financially sound?', 'How can we spread our major financial risks over time? How can we share the risk by partnering with others?'

Ultimately, the objective is to identify a sustainable financial path enabling the business's transition.

Note that this assessment of financial implications is not a one-off step but would trigger iterations with the development of the detailed plan. For example, a business identifying that breaking into a new market would require too much capital compared to its current financial profile might ask itself if it could ramp-up new sources of revenues faster first to attract investments.

Alternatively, it could stick to its initial plan but explore work arounds for this capital hurdle by partnering with others to share the risks.

Executives' main roles here would be:

- From a strategy perspective – any implications that may materially shift the strategic intent of the organisation need to be escalated to the Board for a strategic discussion

  e.g. 'We need to invest more heavily and earlier for our revenues to sustain this plan, and we can't do it alone.' or 'The adaptation costs for this asset are not sustainable and we have to plan our operations without it.'

- From a financial perspective – Ensure that the finance function's mindset is aligned with the intent of the exercise, and its specificities such as the long-time frames and the high uncertainty.

  For example, this could mean triggering constructive discussions about the use of a discounting rate to properly reflect long-term strategic risks and opportunities. A blunt use of discount rates across such time scales would understate the financial significance of future risks and opportunities until it is too late to prevent them.

- From an operational perspective – decisions, trade-offs and prioritisation will be required, given the costs associated with change. Ultimately, executives will be the ones that make the decisions on how to operationalise the transition plan. They need to be comfortable with the financial and operational implications while ensuring alignment with the Board's long-term strategic intent.

Execution: Implement, monitor and adjust course

Executive(s)' objectives

Having a first transition plan will be a significant achievement, signalling to the whole business (and its external stakeholders through disclosures) that it is rising to the challenge. But when the rubber hits the road, as the saying goes, 'no plan survives contact with the enemy'.

But in Dwight D. Eisenhower words,

"In preparing for battle I have always found that plans are useless, but planning is indispensable."

Planning is also a never-ending part of the journey. Surprises are a given, and the plan needs to be constantly used so it is updated to stay relevant. Executives will have a key role to play in embedding the transition plan into the day-to-day processes to ensure it stays alive.

Investing in culture and processes to have some built-in adaptability and resilience will also be a crucial task for management. Organisational capacity for flexibility and innovation will be needed.

The business will have to regularly ask itself questions such as:

- Are we on track to realise our vision of success?
- Are our assumptions still valid?
- What do we need to change?

What should be top of mind

During the execution phase, the planners, managers and staff are responsible for implementing the transition plan. Executives will still have a role to play:

- **Executives will be the key enablers of the success of the transition plan.** This involves removing barriers to delivery, providing direction and decision making along with the adequate level of resource dedicated to allowing the plan to be a success.
- **Drive the "tone from the top" advocating for the organisation's transition planning.** Fundamentally, this is a change management project – as a leader, the choices an executive makes and the stories they tell have an impact on how staff will respond to change. Executives should reflect on how their leadership style can best advocate for their organisation's transition planning process.
- **Be accountable for the transition plan** – understand what the challenges are to its delivery and how it is progressing. Where changes need to be made, executives should work with their relevant teams to provide direction and adjust course.

How to – Practical guidance and useful tools

The focus areas for executives will be:

1 Ensure change is implemented across the business

2 Put people and organisational culture at the centre of change

3 Monitor and iterate the transition plan

4.1 Ensure change is implemented across the business

> "If the structure does not support the strategy, the result is inefficiency."
> - A.D. Chandler

The way a business operates internally both shapes and reflects its culture. However, human beings are highly adaptable, and most cultural issues in companies are symptoms of other issues related to structure, leadership, or systems. Culture is a collective output, and the more people there are in an organisation, the more likely it is for issues to be systemic rather than attributable to individuals.

One way of ensuring the intended change is driven across the organisation is by assessing change across the layers of the McKay Hierarchy of Organisational Needs (Figure 10).

The premise of this framework is that an organisation's culture is an output of how easy it is for staff to do their jobs well within the structures and systems of the organisation.

Before changing the structure of teams, or having conversations about 'changing the culture', organisations need to ensure basic needs are taken care of.

Figure 10: Alicia McKay's Hierarchy of Organisational Needs

Source: Alicia McKay's - Before you restructure, read this

In the context of transition planning, before jumping to a reorganisation, executives need to ask themselves the following questions, in this order:

Needs	Questions	
Foundation needs	a)	Do we have clarity on our strategic intent and how this aligns with our short-term organisational strategy?
	b)	Do our systems (policies, processes, decision making protocol) support us in delivering on the strategy?
People needs	c)	Are our leaders demonstrating their support for the transition plan, engaging in the process and importantly, empowering the staff to do the detailed planning and implementation?
	d)	Do we have the right knowledge, skills and resources required to deliver on the transition plan? And do they have sufficient capacity?
Higher order needs	e)	Do our structured lines of responsibility, communication and accountability support people to make day-to-day choices that align with the transition plan?
	f)	Once all of the above have been answered and gaps addressed: How is our culture now? What are the remaining challenges we need to overcome?

If any answers to those questions are found lacking, executives should work with their relevant staff to unpack where there may be gaps or shortcomings, and how to overcome them. These could be new actions part of the transition plan.

For example, a business might consider signposting resources toward new capabilities needed to support the rest of the organisation, such as cross-teams project management, innovation, partnerships, market research, risk management, etc. See the Volkswagen example on page 24.

Additional tools or methods to consider:

- 7S framework;
- Target Operating Model (TOM)

4.2 Put people and organisational culture at the centre of change

Strategy won't succeed without an enabling culture

Together, culture, purpose and strategy are the essential elements of what a business does and why.

This does not negate the importance of 'hardware' artefacts (i.e. structure, capability and systems), but rather highlights the fact that the need to be more agile means that less reliance can be put on these, and the extra flexibility will be more dependent on 'software' (i.e. strategy, leadership, culture). As a strategic response to disruption, transition planning will likely require organisational and process change, and there will need to be an increased capacity for flexibility and innovation.

Maintaining alignment between culture and strategy is critical to achieving change. No matter how strong the strategic plan, its efficacy will be held back without an enabling culture[11]. It can be easy to lose track of that during difficult times, which will inevitably happen, especially considering the challenges on the horizon.

Ideally, organisational culture will have already been considered during the transition planning process, at least for the first few years of the plan[12]. Depending on the starting point, the following are aspects to consider for an entity looking to adopt an adaptive strategy[13]:

- **Team(s) diversity**: Diversity of thought and experience results in more tools to solve new problems.
- **An appropriate hierarchy**: Empowerment is key to adaptability.
- **Cross-functional collaboration**: A 'we', not 'me' culture—silos and adaptability are mutually exclusive. For example, 'customer-centricity' is a typical concept for organisations to collectively rally around and build their collective adaptability muscle.
- **Leaders walking the talk and modelling adaptability**: Demonstrate that leaders can change course and be open to new ideas.
- **Trust and getting comfortable with failure**: Transparency helps to build trust, and a culture of blame is incompatible with adaptability. Analysing failures helps to identify root causes, which can be used for future learning.
- **Embracing change**: Reward those who push for innovation. Encourage your team(s) to continually ask how the business can improve.
- **Growth mindset**: Capabilities are not fixed and can be developed. Challenges and uncertainty can be seen as opportunities.
- **Long-term thinking**: Adaptability does not mean erratic changes causing stress for customers and employees.

Conditions for success

1 A healthy organisational culture, where the standard is set and exemplified from the top, is crucial to enabling effective engagement around transition planning. Leaders must exhibit embracing change, and a growth mindset.

2 Building a diverse, cross-functional, and collaborative transition team will benefit the outcome of the exercise.

[11] "Culture eats strategy for breakfast" - What does it mean?
[12] See also GFANZ's recommendation two on governance in Financial Institution Net-zero Transition Plans Fundamentals, Recommendations, and Guidance, 2022, p.23.
[13] How To Build A Culture Of Adaptability

Additional tools or methods to consider:
- Deming's 14 points
- Force field Analysis
- Unleashing the sustainable business | Cambridge Institute for Sustainability Leadership (CISL)

4.3 Monitoring and iterating the transition plan

While entities will have developed a series of leading indicators to monitor to inform future decisions, the progress of the transition plan itself needs to be monitored too. There needs to be clear channels and lines of reporting from planners to executives and to the board.

Ideally, the inclusion of climate into a business's strategy, risk management processes and all the steps discussed above, will mean that progress will stay top of mind across the organisation daily.

Financial institutions can refer to **GFANZ recommendations on metrics and targets** and corporate entities can refer to UK TPT Transition planning cycle, **stage 4**.

Conditions for success

1. Transition plans should be adaptable with rapidly changing futures. There should be monitoring in place around reference points where decisions are made, so that pivoting can occur.
2. There will be uncertainties in a transition plan, and the required information will only be available in the future. It's important to be monitoring the relevant places to be able to fill in knowledge gaps when it's possible.
3. Iterating the transition plan based on new knowledge should be expected. With the uncertainties involved in this plan, there will always be some level of iteration.

Delivered by:

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