How companies think about climate change: **A McKinsey Global Survey**

Jean-François Martin

Fully 60 percent of global executives surveyed by *The McKinsey Quarterly* regard climate change as strategically important, and a majority consider it important to product development, investment planning, and brand management.

Fewer companies, however, act on these opinions. More than one-third of executives say their companies seldom or never consider climate change when developing overall strategy.

Nonetheless, executives express optimism about the business prospects of addressing climate change. Sixty-one percent expect the issues associated with climate change to boost profits—if managed well.

Despite the uncertainties around regulation, a remarkable 82 percent of executives expect some form of climate change regulation in their companies' home country within five years.

The McKinsey *Quarterly*

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A McKinsey Quarterly *survey finds that most executives think climate change matters for their companies. Although few have taken action, they are optimistic about the possibilities.*

Against a backdrop of rising global concern about the environment and climate change, a *McKinsey Quarterly* survey finds that executives view climate change issues as important for their companies, seeing both opportunity and risk. The survey,[1] which included respondents from a range of industries (some 40 percent of whom are evenly split between finance and manufacturing, with another 8 percent in energy, transport, or mining), finds that fully 60 percent of global executives view climate change as important to consider within their companies' overall strategy. Further, nearly 70 percent see it as an important consideration for managing corporate reputation and brands, and over half say it's important to account for climate change in such varied areas as product development, investment planning, and purchasing and supply management. About one-third of respondents say their companies places more emphasis on climate change than on most other global trends.

Relatively few companies, however, currently appear to be translating the importance they place on climate change into corporate action. Fully 44 percent of CEOs, for example, note that climate change isn't a significant item on their agendas. Further, many respondents report their companies consider climate change only occasionally at best when managing corporate reputation and brands, developing new products, or even managing environmental issues. And more than one-third of global executives say their companies seldom or never factor climate change into their companies' overall strategy. When asked how well their companies do take climate change into consideration in strategy, more than half of CEOs say somewhat well at best.

Executives are relatively optimistic when anticipating the business prospects that climate change could present. About one-third view climate change as representing an equal balance of opportunities and risks (more than the amount who see either a preponderance of risk or of opportunity). And 61 percent of respondents view the issues associated with climate change as having a positive effect on profits if managed well.

Given the considerable uncertainties around climate change regulation, it is noteworthy that more than 80 percent of global executives expect some form of climate change regulation to come to their companies' home country within five years. Relatively few executives say their companies are likely to respond to new regulations in geographies where they operate.

[1] *The McKinsey Quarterly* conducted the survey in December 2007 and received responses from 2,192 executives around the world—27 percent of them CEOs or other C-level executives. The data are weighted to reflect the proportional representation of segments in the total population.

Importance versus action

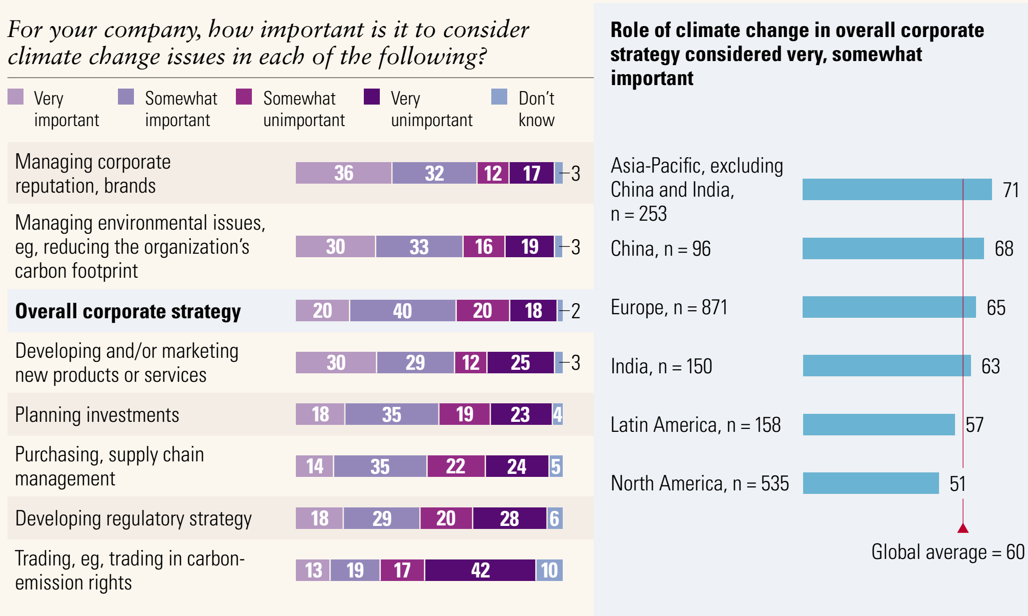
A previous survey found that executives around the world increasingly identify environmental issues, including climate change, as a key trend to watch in the coming five years.[2] This survey finds that 29 percent of executives say their companies currently emphasize climate change more than most other trends. Executives of energy companies, publicly owned companies, and organizations with revenues greater than $1 billion are most likely to say so.

Moreover, the majority of global executives regard climate change as strategically relevant and important to consider in many of their key decisions. Sixty percent of respondents say climate change is a somewhat or very important element for their companies to consider in overall corporate strategy (Exhibit 1, part 1). This feeling is most widespread in developed Asia,[3] China, and Europe, where 71, 68, and 65 percent of executives, respectively, agree. Furthermore, a majority of global respondents say climate change is a somewhat or very important element to consider when managing environmental issues, developing new products, and planning investments—and nearly half say this is also true for purchasing and supply chain management. Likely reflecting increased public concern about climate change, nearly 70 percent say climate change is somewhat or very important in managing corporate reputation and brands.

Exhibit 1, part 1

Importance . . .

% of respondents,[1] n = 2,192



[1]Figures may not sum to 100%, because of rounding.

[2]In a September 2007 *McKinsey Quarterly* survey, more than half of the global executives polled picked the environment, including climate change, as one of three issues that will attract the most public and political attention during the next five years, compared with 31 percent of executives in a survey conducted in 2005. For more, see "Assessing the impact of societal issues: A McKinsey Global Survey," on mckinseyquarterly.com.

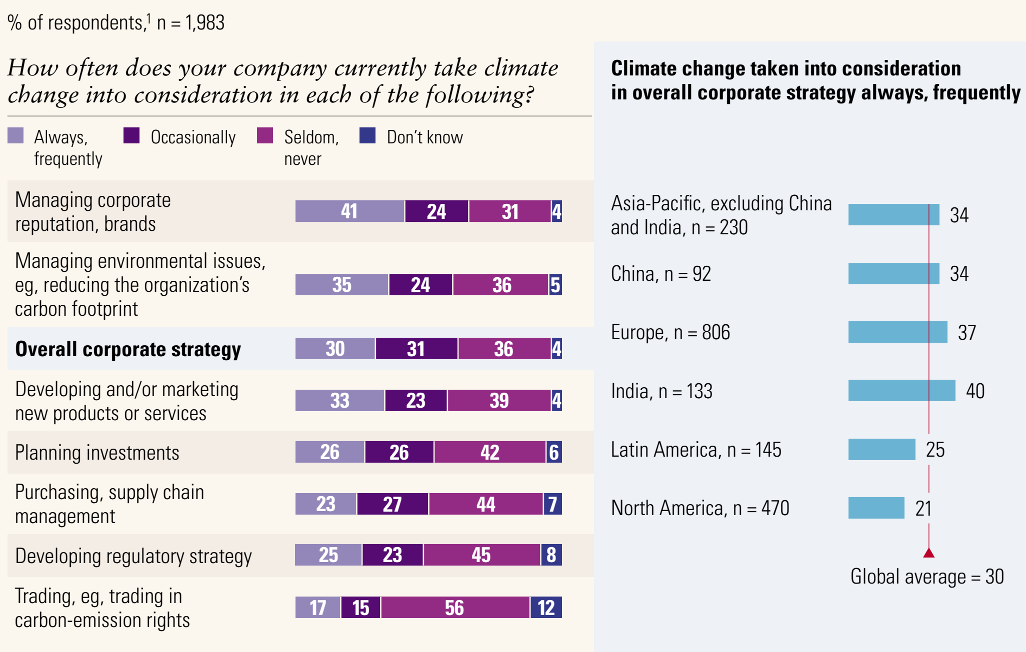
[3]This region includes Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

It appears, however, that companies around the world aren't currently translating the importance they place on such issues into action. Thirty-six percent of global executives report their companies seldom or never consider climate change in corporate strategy (Exhibit 1, part 2). About four in ten say their companies seldom or never account for climate change when developing new products, planning investments, developing a regulatory strategy, or in purchasing. Similarly, 60 percent of CEOs around the world say climate change is a somewhat or very important consideration in overall strategy, yet 44 percent also say that climate change is not a significant item on their agenda. And when asked how well their companies take climate change into consideration in strategy, 55 percent of CEOs say somewhat well or not at all well.

Still, in regions where the environment has been a significant public issue, executives say their companies are more active. For example, 34 percent of executives in China, 37 percent of those in Europe, and 40 percent of respondents in India report that their companies frequently or always consider climate change in overall strategy, compared with a global average of 30 percent.

Exhibit 1, part 2

. . . versus action



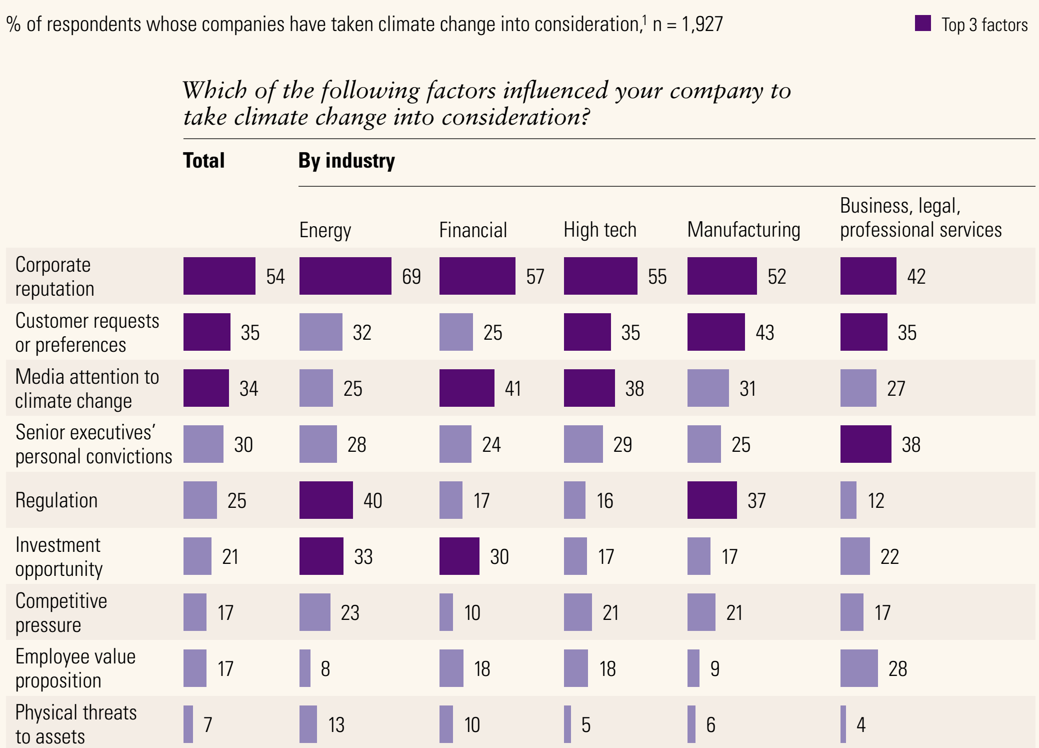
[1]Figures may not sum to 100%, because of rounding.

Among executives of companies that are taking climate change into consideration, the influencing factors cited most often are corporate reputation, media attention to climate change, and customer preferences. Responses differ somewhat by industry (Exhibit 2) and region.

Executives in developed Asia-Pacific countries are most likely to cite reputation (62 percent), while executives in Latin America are most likely to cite media attention to climate change (40 percent) and regulation (38 percent).

Exhibit 2

What spurs action?



[1]Respondents could select more than 1 answer.

Degrees of opportunity

Executives reveal little consensus when asked how they view the impact of climate change within their companies, but a significant proportion of respondents see risk and opportunity as equally balanced (Exhibit 3). Executives from the energy and manufacturing industries are the most likely to see a balance. Respondents in Europe are the most optimistic: about one-quarter say that climate change presents mostly opportunities. Respondents in developed Asian countries are least so, with the same proportion indicating that climate change presents mostly risks.[4]

Exhibit 3

Balanced mix

% of respondents,[1] n = 2,192

How is the impact of climate change viewed within your company?

Climate change creates:	Total	By industry: Energy	Manufacturing	Financial services	Business, legal, professional services
An equal balance of risks, opportunities	32	41	37	33	28
Mostly risks, limited opportunities	21	26	21	20	14
Mostly opportunities, limited risks	20	22	21	18	28
No impact	15	5	10	16	20
Only risks	4	1	5	5	4
Only opportunities	3	4	3	4	3
Don't know	4	1	5	5	4

[1] Figures may not sum to 100%, because of rounding.

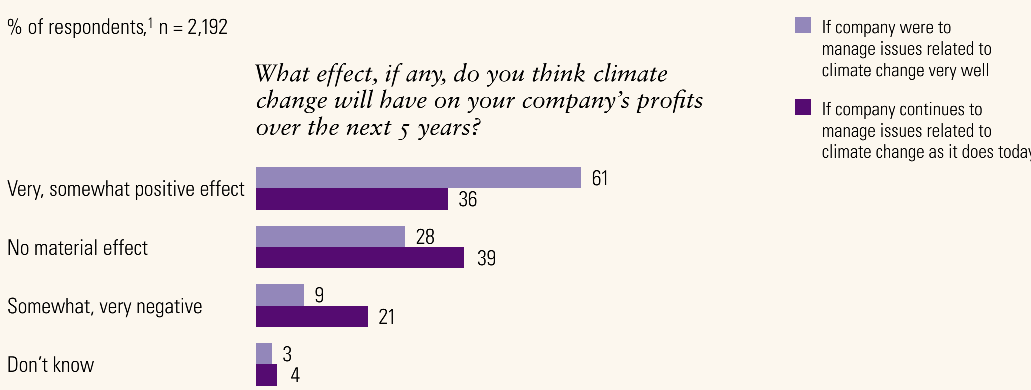
[4] For their part, one in five executives in North America and the same proportion in Latin America say climate change will have no impact on their companies.

When asked about the influence of climate change on profits, however, executives are largely upbeat. More than one-third of global executives say that if their companies continue to manage the issues associated with climate change as they do today, the effect on profits will be somewhat or very positive (Exhibit 4). Fully 61 percent expect a somewhat or very positive effect on profits should their companies manage the issues related to climate change very well. Seventy percent of energy executives and two-thirds of manufacturing executives share this sentiment—the highest proportions of all the industries we surveyed.

Regionally, executives in Europe are most likely to agree (66 percent say the effect of climate change would be somewhat or very positive if managed very well); respondents in China and North America are least so (53 and 56 percent, respectively). Further, executives in China are twice as likely as other executives to report that the effect of climate change on profits would be somewhat or very negative, even if managed very well.

Exhibit 4

Climate change and profits



[1]Figures may not sum to 100%, because of rounding.

Managing climate change

Executives largely agree that issues related to climate change present opportunities if managed well. But where do the management responsibilities for climate change reside within companies? There's no consensus: about equal percentages of respondents apportion the responsibility for ensuring that their companies consider climate change to C-level executives, corporate-level strategists, and business unit or functional managers (Exhibit 5). Notably, while these findings broadly hold across industries, executives in the high-tech and energy industries are more likely than average to say that climate change responsibilities reside with C-level executives.

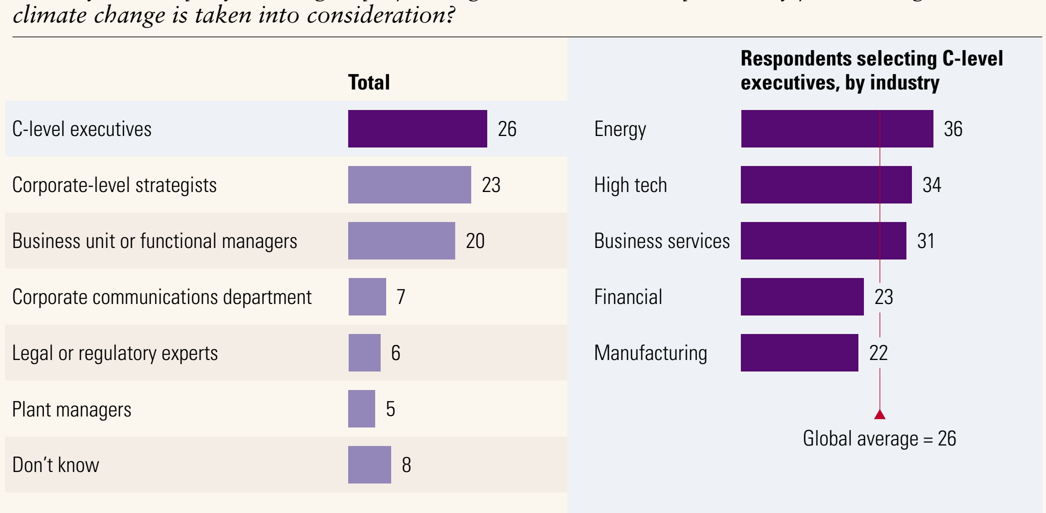
Still, the majority of respondents report that their companies don't employ organizational performance targets related to climate change. In fact, more than 70 percent of global executives report that their companies don't include formal targets related to climate change in the performance dialogues or reviews of relevant executives.

Exhibit 5

Who's responsible?

% of respondents,[1] = 1,927

Within your company, which group of managers has the most responsibility for ensuring that climate change is taken into consideration?



[1]Respondents who answered "other" are not shown.

Regulation ahead

Relatively few companies, it seems, set emission targets. More than 60 percent of executives whose companies consider managing environmental issues to be at least somewhat important report that their companies haven't defined corporate emission targets for greenhouse gases—and another 15 percent don't know if their companies have or not. This situation seems unlikely to last, however, as more than 80 percent of global respondents indicate they expect some form of climate change regulation to be enacted in their companies' home country within five years. Among respondents in countries where regulation has not already been enacted, executives in the developed Asia-Pacific region anticipate regulation soonest, with one-third of respondents saying they expect it within one to two years.

Six in ten executives say they expect regulation in the form of technical standards, while nearly five in ten anticipate either a carbon cap-and-trade system or a carbon tax (Exhibit 6).[5] Regardless of the type of regulation respondents

Exhibit 6

Regulation ahead

[1]Figures may not sum to 100%, because of rounding.

[5]Responses to this question are difficult to interpret and should be considered cautiously, as we observed lower percentages of respondents indicating that particular types of regulations are present in their regions than would appear to be the case.

anticipate, however, they broadly agree that the effects of any regulations on profits are more likely to be negative than positive, although even more—some 40 percent—expect there to be no material effect. Executives in energy and manufacturing companies are significantly more likely than average to anticipate a negative impact on profits from all types of climate change regulations, despite their overall upbeat view of climate change's effect on profitability.

Executives' anticipation of future regulations appears to have relatively little effect on where most companies plan to operate. About three-quarters of executives find it somewhat or very unlikely that their companies would relocate to avoid new regulation in countries where they currently operate, regardless of the type of regulation involved. Nonetheless, 4 percent consider relocation in such circumstances very likely, while 7 percent consider it somewhat likely. For their part, C-level executives are slightly less inclined than other respondents to say that relocation in response to climate change regulation is somewhat or very likely, while executives in manufacturing and high tech are slightly more likely than executives in other industries to say so.

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Contributors to the development and analysis of this survey include **Per-Anders Enkvist,** an associate principal in McKinsey's Stockholm office; and **Helga Vanthournout,** a consultant in the Geneva office.