In collaboration with Deloitte

Climate Governance Initiative

WORLD ECONOMIC FORUM

# The Chairperson's Guide to a Just Transition

BRIEFING PAPER

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# Contents

# Preface

Corporate boards are grappling with the implications of climate change on their business. This is primarily focused on how apparent and emerging risks and opportunities may reframe their activities, strategies and value chains. However, there is often less consideration given to the uneven impact of the transition on people and communities, how this will impact the way they operate and behave, and how this will affect business.

Board members spend much time developing rational strategies to cope with future scenarios based on science, economics and politics. However, **if the impact on people, both individually and across regions, is not considered then this rational strategy may fail**. Consideration of this broad perspective and ensuring that changes are understood and the downsides appropriately mitigated underpins the concept of a *just transition*.

For many people, a just transition encompasses larger issues including who should be held responsible for reparations, recognizing the historic culpability and moral obligation to fund system-wide adaptation for low emitting countries who are disproportionately impacted by climate change. This often becomes a debate regarding the relative wealth and resilience of the global south versus the global north. This debate is out of scope for this paper, but it begs the question of what is the role of corporate boards in resolving this deeply complex issue.

Fiduciary duties to oversee the transition are clear and therefore come with the obligation to understand and consider what is needed for a just transition. Many board members see this as being merely the cost of doing business going forward. But as outlined through this paper, if done well it can generate significant value for the business by redefining its relationship with the communities in which it operates. This paper seeks to reframe this pattern and provides reasons that chairpersons and **board members should care about achieving a just transition as a means to create a successful and regenerative business**.

The transition to a climate-neutral economy will transform the way people, communities and your businesses operate. **By making it a just transition, successful businesses will be positioned to grow underlying capital and value** while also making the world more equitable. Conversely, failure to consider this aspect may materially impact the future prosperity of your company.

This report is part of a series of guides for chairpersons navigating the climate transition. Previous briefing papers from the World Economic Forum's series of guides include:

- The Chairperson's Insights into Climate Action
- The Chairperson's Guide to Climate Stakeholders
- The Chairperson's Guide to Decarbonization.

# 1 What is the just transition?

Born out of a labor movement in the 1970s, the just transition has been referenced broadly through the decades, from job creation to poverty elimination. Emerging across the proliferation of definitions available is the notion that the just transition is both a principle and a process:[1]

- **Principle** – Fair, inclusive and equitable transition towards a global economy in balance with its environment and which recognizes that people are at the heart of the transition.
- **Process** – Negotiate and implement the principle through social dialogue within relevant geographical, political, environmental, cultural and socio-economic contexts.

A just transition is built on three key concepts:[2]

- While likely to be a global net job creator, climate-driven economic change will disrupt, transform or create entire industries, workforces and professions.
- These changes will disproportionately impact specific groups of workers and communities, especially in regional areas with specialized workforces.
- Left unchecked, this will exacerbate unjust and enduring economic and social effects, thereby putting at risk the successful delivery of the transition.

These concepts are likely to evolve as new issues emerge in the transition to a climate-neutral economy.

A successful just transition is critical for business strategy as it can help to enhance human capital, elevate social value, provide competitive advantage, improve corporate reputation and reduce systemic risk.[3]

A lack of consideration for social aspects of the transition can create new business risks, including risk of public resistance to climate action or, conversely, radicalized climate activism from a perceived lack of action. Either of these can result in social instability and reduced economic activity.[4]

A just transition provides an approach to help businesses manage these risks and harness the opportunities of the climate transition. These challenges and opportunities are not limited to large corporations but equally apply to small to medium-sized enterprises in their roles as part of larger value chains.

A just transition also creates an opportunity to address both historic inequities and current challenges, for example using re-skilling to correct gender balance or enabling indigenous communities to take a leading role in new industry development.

Ultimately, decision-makers who do not place people at the heart of the transition may undermine the achievement of climate action ambitions.

# 2 The unique role of board members in realizing value through a just transition

The decisions made by businesses over the next few years will help determine the world's decarbonization journey. With around 40 million people working in the energy sector,[5] and a further 1.5 billion employed by other sectors central to climate stability (i.e. agriculture and manufacturing),[6] many workforces will, inevitably, transform. As workforces transform, it will have widespread effects across the whole ecosystem of stakeholders, as adjacent industries that rely on anchor carbon-intensive industries are equally forced to transform.[7]

A transition to a climate-neutral economy that lacks consideration for the social welfare of interlinked communities could inadvertently amplify inequality and social marginalization.

This can expose the business to new risks, including political instability, reduced economic activity and reputational damage. Moreover, businesses may face public resistance to climate action, weakening decarbonization efforts and putting the business at risk of not meeting established climate targets.[8] The adoption of a clear just transition strategy is critical to safeguarding the successful achievement of the business transformation strategy. In this way, a just transition is just as much a business risk management approach as it is a community movement.

A successful just transition is critical for business strategy as it can help to enhance human capital, elevate social value, provide competitive advantage, improve corporate reputation and reduce systemic risk.

Businesses are increasingly expected to engage with and plan for change within the communities in which they operate.[9] These expectations are complementary to efforts already underway by businesses to ensure climate resilience of their assets, such that both operations and local communities are protected from the impact of changing weather patterns on operations, infrastructure and value chains.[10]

A recent assessment of key businesses by the World Benchmarking Alliance indicates an overall failure in just transition readiness.[11] To drive positive outcomes, corporate boards need to take a proactive role to ensure a just transition is a business priority.

## Chairpersons and boards should spearhead the just transition strategy to realize business value

In line with the World Economic Forum's Principles for Effective Climate Governance,[12] boards have a duty to shareholders to oversee effective management of the transition.[13] This will require strategic integration of the just transition in order to maintain the speed of transition and encourage buy-in from key stakeholders including employees, communities, customers and suppliers.

A just transition ultimately calls for a collaborative approach with shared goals across industries, geographies and governments. This will require embracing an outward-looking perspective through industry forum attendance, cross-organization and cross-industry dialogue, and policy advocacy.

Boards of directors are critical to achieving an effective just transition that will benefit their business for four main reasons:

FIGURE 1

**Chairperson's unique role in realizing value through a just transition**

### Speed of the transition

For many businesses, the pace of change over the next few years will be so rapid that executives most likely will not have the capacity or the systems in place to take advantage of the opportunities without the board's clear direction, support and oversight of the of resources. Moreover, the collaborative process necessary for a just transition can slow the pace of change, meaning careful board oversight will be important to reduce the risk of hasty decision-making, leading to potential mismanagement of the transition as the urgency of action rises. Empowering and holding the executive accountable will encourage them to make optimal strategic decisions with the required agility.

### Strengthen social and business value

Boards of directors have a duty to monitor the political and social landscape to assess climate risks and opportunities to create competitive advantage. They should monitor stakeholder expectations and socio-economic trends as well as oversee the management of risk of stakeholder backlash which may inhibit company's progress to net-zero. In addition, they should actively anticipate the impacts, opportunities and inequalities the transition could create along the value chain. Through strategy redesign, the board can strengthen the company's business and social value and thereby positively impact long-term financial sustainability.

### Social sustainability

The transition requires the resolution of complex and interlinked challenges. As the board prepares for the complex and interconnected systems change* that will be required to affect a just transition, there will likely become greater awareness of the five types of capital relied on to deliver products and services (see Figure 1 below). Specifically, the need to maintain and enhance the sustainability of social capital and human capital will be recognized as core to long-term value creation as part of the just transition.

### Outward perspective

A just transition requires shared goals across industries, regions and governments. To achieve this, companies should move from having an inward-looking focus to an outward looking perspective. This impetus to change can be accelerated by individuals on the board through their role in participating in industry forums, facilitating appropriate conversations with other industry players (including competitors) and advocating for policy change.

* See an example of four complex and interconnected economic systems that will become low emissions in a net-zero future in the [All Systems Go report](#).

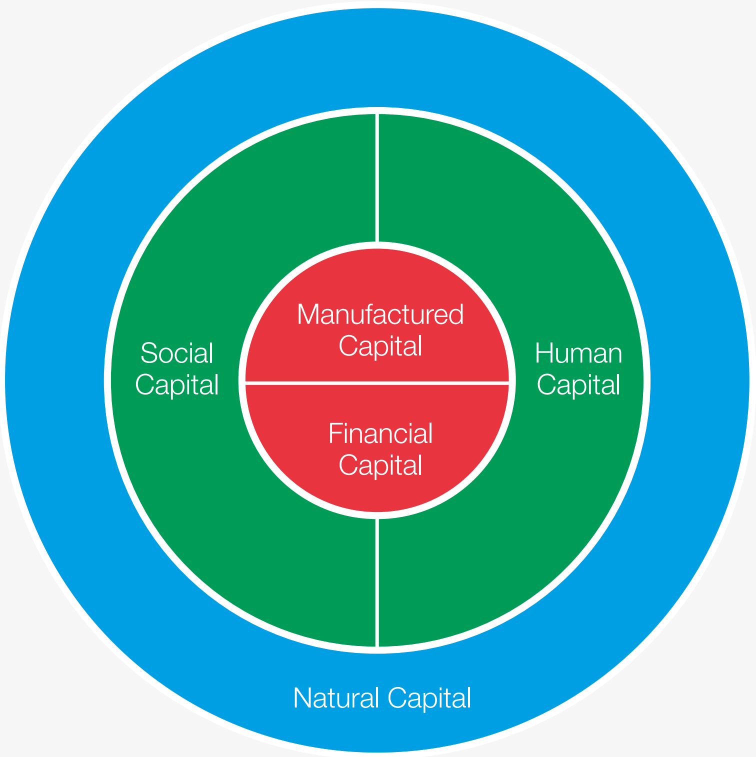
**Source:** Deloitte Access Economics

Board members have a duty to act in the best interests of the company, which may include a consideration of what needs to happen to maximize its wealth creation or "capital". The Five Capitals Model below identifies five types of capital used by businesses to deliver products and services.

A sustainable business should take the time to understand and value each different type of capital, with a view to maintaining and ideally enhancing these stocks of capital assets. This model is useful in providing board members with a better understanding of financial sustainability in the context of the wider environmental and social issues that will help augment long-term profitability and value, as well as manage potential business risks to capital that may surface during the climate transition.

While the notion of a just transition is inherently a people-centric concept, the Five Capitals Model assists in making it clear that the whole system (the ecosystem in which it operates) matters, as part of the creation of shareholder or stakeholder capital.

FIGURE 1 **The Five Capitals Model**[14]




**Examples of the Five Capitals**

- Natural Capital includes naturally occurring resources and sinks absorbing waste, e.g. carbon sinks
- Human Capital includes knowledge, skills, motivation and well-being
- Social Capital includes the networks and institutions that help maintain and develop human capital, e.g. families, communities and businesses
- Manufactured Capital includes human-made assets that contribute to the production process, e.g. tools, buildings
- Financial Capital includes shares, bonds and banknotes and is the traditional primary measure of business performance.[15]

**Source adapted from:** The Five Capitals Model

Chairpersons who sponsor a just transition within their business typically demonstrate these types of behaviours:

- **Drive key decisions by the board** that help enable a just transition (i.e. prioritize stewardship, hold executives to account on embedding sustainability in corporate strategy, allocate appropriate resources or challenge capital allocation decisions).
- **Shape the strategic direction** by regularly reflecting on and discussing the long-term vision in which a just transition has been achieved in the boardroom.
- **Influence the boardroom agenda** so ample time is spent discussing climate change and the just transition.
- **Support the CEO** by highlighting the exciting opportunity a just transition represents and support messaging and thinking about potential scenarios by encouraging informal and formal training.
- **Demonstrate** personal willingness to listen, learn from, collaborate and cooperate with communities, employees, customers and suppliers impacted by the value chain.

For further discussion on the role of the chair in achieving a just transition, see Deloitte Global's The Chair's Guide to Realizing Value from a Just Transition.[16]

# 3 A framework for navigating the just transition in the boardroom

A multitude of divergent frameworks and approaches exist but ultimately there are four key steps to navigate the just transition in the boardroom. Below are key questions for board members to ask their CEO and executives in relation to the just transition.[17]

FIGURE 2 **Key questions to navigate a just transition**

**1 Understanding the issues**

- Have we identified, engaged and collaborated with our communities, employees, investors and shareholders, customers and suppliers, as well as local and regional economies, competitors facing similar issues and businesses that could support those impacted across the value chain to assess and address the impact of our transition plan?
- Where are the impacts most significant? Over what time frame?
- What potential transition scenarios exist and how do they influence our strategic choices? How do the different scenarios change the impacts on different stakeholders?
- Ideally, our board would engage directly with those stakeholders most impacted in order to gain a clear understanding of their views, recognizing trade-offs will be required and not all concerns can be addressed. Can we agree an appropriate level of interaction directly between the board and our most impacted stakeholders?

**2 Strategic alignment**

- Are our desired outcomes for delivering a successful just transition clearly defined (vision, financial and non-financial goals)? Have stakeholder groups been engaged to define these outcomes?
- Have we embedded a just transition and stakeholder collaboration into our strategy and core business operations?
- How are we integrating our just transition commitments with our other commitments to achieve the Sustainable Development Goals, International Labour Organization standards, decarbonization and climate resilience outcomes?
- Will we establish or join a peer-to-peer network in order to work collectively with others to create an economy-wide just transition?
- How could a failure to successfully implement a just transition strategy negatively impact the business and our stakeholder groups?

**3 Prioritization**

- Do we have a clear market position on our commitment to a just transition?
- What key stakeholders and issues should we prioritize? How has this been informed by stakeholder engagement? How regularly will we review these priorities?
- Where is our business focusing its resources (capital, time and effort) on just transition issues and enablers? Are our investors aligned with both short- and long-term investment needs?
- What changes may be required to our operating model to deliver a just transition?
- What specific actions/response measures are management taking and how are stakeholders informed of these decisions (e.g. capital allocation, resource allocation, governance, partnerships)?

**4 Monitoring**

- Have we established ongoing open and respectful multi-party engagement with our stakeholders, including impacted communities, employees, customers and suppliers, industry peers and policy-makers?
- What data and analytics are we leveraging to measure performance and risk in order to pivot strategy and approach?

**Source:** Deloitte Global

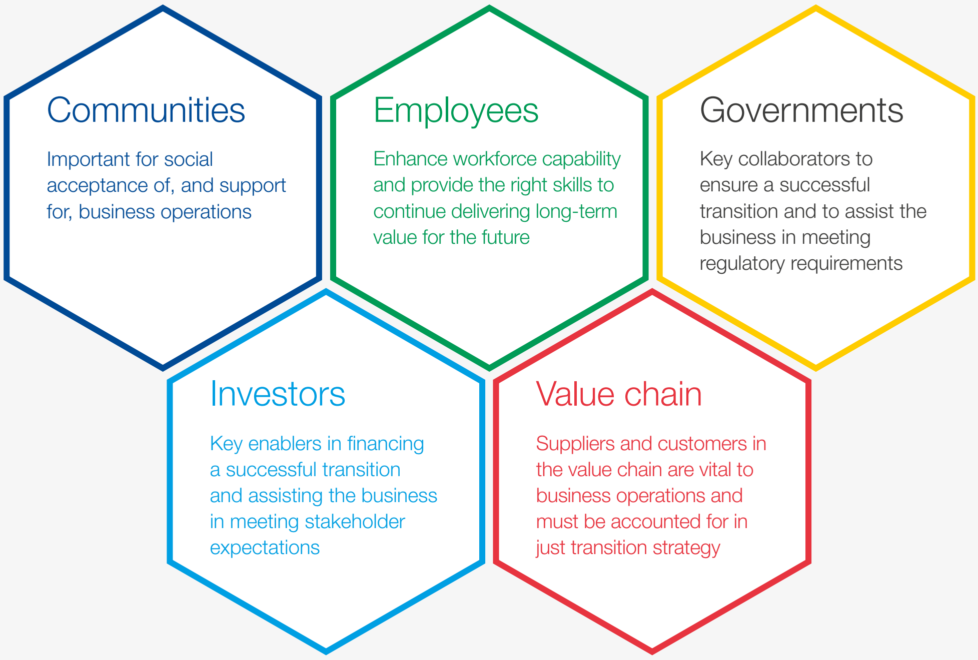
# 4 Questions to ask your key stakeholder groups

Through engagement with **employees, communities, governments, investors and key players in the value chain**, businesses can help accelerate the delivery of a just transition.

The following section details across these five stakeholder groups:

- Questions board members should be asking in relation to that stakeholder group
- The relevance of the just transition to this stakeholder group
- The relationship between the business and the stakeholder group in shaping a just transition.

FIGURE 2 **Stakeholders in the just transition**




**Source:** Deloitte Global

It is important to recognize that these stakeholders are deeply intertwined – an individual is simultaneously an employee, a member of many communities, a customer, an investor and a taxpayer. A successful transition strategy understands and addresses these complex interlinkages. A regenerative economy mindset acknowledges that by supporting one stakeholder, the business is also influencing and supporting others. Conversely, an extractive mindset views these stakeholders in silos and as tools to be used rather than as a system that can both create and destroy value.

In some regions, many of these stakeholders already face numerous existential threats, including war, food shortages, health crises and social inequity. These issues will be exacerbated if both climate change and climate action go unchecked because businesses do not consider the social implications of their transition plans. Creating a just transition should complement actions across other key development goals to effectively achieve a sustainable economy.

A successful climate transition depends on global cooperation. If stakeholders feel cut out of the benefits of the transition they may mobilize to create a backlash against climate action, thereby risking failure to achieve climate targets. Further, increased unemployment and marginalization may result in groups becoming desperate and drawn to high-impact reactions (such as civil conflict or extremism). Engaging stakeholder groups early and assisting them to acquire new skills and develop new products are critical to economic stability and success in the transition to a climate-neutral economy.

Further information on how each of these groups are impacted and the role for boards in the just transition can be found in Deloitte Global's The Chair's Guide to Realizing Value from a Just Transition.[18]

| | Key issues/considerations | Key questions |
|---|---|---|
| Employees/workforce | Although the focus to date has been on lost jobs in heavy emitting industries, job transformation will likely be felt across all industries. This includes:<br>– Jobs in industries that are in decline (e.g. thermal coal miners)<br>– Jobs in growing, new and/or low-emissions sectors (e.g. carbon market analyst)<br>– Jobs in which capabilities will change (e.g. electricians or geologists)<br><br>Additionally, as the responsibility for sustainability expands across the business, green skill development will likely be required for all roles in the workforce. The restructuring of the labour force required by the climate transition presents a key risk for businesses to manage and for boards to oversee plans to acquire the skillset and the mindset necessary to continue to protect and create enterprise value.<br><br>Boards should question management on how it is addressing this workforce transformation, as poor execution could undermine corporate strategy. The business can support the transformation through retraining programmes, as well as industry and university partnerships.<br><br>The workforce transformation can also be used to address broader diversity, equity and inclusion issues. Boards should understand how management is using investments in re-skilling to address historical inequities and allow disadvantaged groups to unlock latent potential. | – How might our workforce capability requirements change, including those across our value chain, in both technical and people skills, as we transition?<br>– Does management have sufficient data to make informed decisions about workforce transition over time?<br>– Do we have a plan to enhance the current workforce and use the external market to address future capability gaps?<br>– How can we use the transition to address other workforce matters, such as diversity and inclusion? |
| Communities | Locked-in climate change adversely affects vulnerable communities as a result of physical impacts from changing weather patterns. This includes those living in regional and rural areas, those living in poverty, or those who belong to disadvantaged groups (e.g. indigenous peoples). Rapid transition without social awareness could exacerbate these impacts by overlaying multiple stressors, such as extreme weather events impacting vulnerable communities already affected by the climate transition.<br><br>Green and regenerative industries represent an opportunity to address climate impacts and disrupt the cycle of inequality.[19] This includes investment in new low-carbon industries as well as adaptation and resilient infrastructure. However, decisions to withdraw from carbon-emitting industries or enter green industries could worsen inequality if not managed intentionally, including if the business overlooks building adaptation, circularity and resilience into new investments. Different economic, social, political and cultural realities across and within regions further complicates this.<br><br>Boards should challenge management on their awareness of, and approach to, community concerns. Successful litigation, negative media coverage and revocation of approval licenses in today's landscape have ongoing implications on operations, costs and reputation.<br><br>Taking a just transition approach promotes equality and ultimately reinforces business benefits such as productivity and economic growth. As noted earlier, without a just transition businesses may witness increasing marginalization and polarization of communities that may result in a backlash to decarbonization efforts.<br><br>Businesses should consider creating mechanisms for ongoing dialogue, partnering with communities and NGOs, providing community investment and supporting sustainable development models. | – Have we considered the depth and breadth of the community impacted by our plan to transition and do we understand their fears, issues and related expectations of our business?<br>– How is our business reputation and brand perceived by community stakeholders and how might this shift through the transition?<br>– What resources and capabilities have our business put in place to address our prioritized community issues, expectations and engagement?<br>– How will we maintain oversight of community boundaries that are unclear and regularly shifting?<br>– How is management communicating the transition to the community and providing avenues for engagement and feedback? |

| | Key issues/considerations | Key questions |
|---|---|---|
| Governments | Governments are key facilitators of a just transition. Following re-commitments to the just transition in the United Nations Climate Change Conference (COP26) Glasgow Climate Pact, there is evidence of momentum for action in leading countries (e.g. the EU's Just Transition Mechanism).<br><br>Boards should anticipate legal and regulatory policy updates in jurisdictions where they operate. Businesses will need to evaluate what capabilities and capacity are required to deliver a just transition and how they will effectively coordinate with government timelines.<br><br>Collaboration between public and private entities could optimize results for stakeholders, particularly by helping to reduce unemployment and the development of green skills.[20] Businesses should consider how they can work with government bodies across strategic workforce planning, future talent pipelines and talent ecosystem conditions. Moreover, small and medium-sized companies can work together with peak bodies and chambers of commerce to access government-funded training and internship programmes. | – What are the evolving expectations from governments across all jurisdictions in which we operate?<br>– Are there any current or emerging compliance or policy measures that we need to navigate?<br>– What financial and other support mechanisms has the government made available and is our business using them effectively?<br>– How do we collaborate with the government to co-design or participate in the regional economic strategy? |
| Investors, shareholders, financiers and insurers | Investor groups are increasingly concerned about the just transition due to systemic risks, fiduciary duties, evaluation of value drivers, the need to uncover investment opportunities and contributions to societal goals.<br><br>This is reflected in evolving expectations for transparency and disclosure, championed by finance sector-led networks (such as the Glasgow Financial Alliance for Net Zero and Climate Action 100+). Notably, these initiatives are already placing pressure on boards for climate action targets and just transition outcomes.<br><br>Boards must also aim to encourage management to consider new sources of capital. This may include bonds designed to fund transition costs (i.e. green/transition bonds), blended financing (i.e. The Just Transition Fund) or place-based government funding (i.e. Ruhr Valley Transition). | – What collaborations are we exploring to maximize funding and structure financing flows to key initiatives?<br>– Are we effectively leveraging available financial instruments (e.g. sustainable finance), grants and incentives?<br>– Have we considered innovative equity and investment structures (e.g. community, indigenous-based co-investment)?<br>– How do we engage with investor groups to help ensure our just transition approach meets market expectations?<br>– How will our land and asset use, rehabilitation and re-use strengthen our just transition priorities and impact our insurance rating? |

| | Key issues/considerations | Key questions |
|---|---|---|
| Value chain | The climate transformation will have numerous effects on the value chain:<br>– Climate change will likely increase value chain volatility and negatively impact operations through workforce displacement and/or loss of customer base.<br>– As businesses begin to decarbonize their supply chain, small and medium-sized enterprises and local businesses are likely to struggle to keep up with net-zero demands due to a lack of resources to transition. This may further exacerbate unemployment and community issues as described above.<br>– The near-shoring of jobs to avoid emissions from transport and logistics could present trade-offs for different communities as it requires withdrawing from offshore suppliers. This could impact local communities in the offshore region, often in developing nations.<br>– The transition will also require transparency in reporting of supply chain emissions. Businesses could use this supply chain review process as an opportunity to address human rights concerns and embed ethical sourcing within their supply chain.<br>– As the physical effects of climate change become more pronounced, businesses should be prepared to build resilience in their supply chain so they can continue to provide affordable and reliable goods and services.<br>– Businesses may risk their reputation if they are seen to be unfairly treating people as they transition, resulting in a loss of customers. Moreover, companies may risk losing business customers that increasingly demand consideration for the just transition as part of their policy of going into business together.<br>– As with communities, if suppliers and customers are not brought along the decarbonization journey they may face polarization and backlash against the company's climate agenda. | – How can the business support suppliers to successfully navigate their own just transition impacts?<br>– Can the business support existing and new local businesses in growing toward diversified, future-facing and growing industries and sectors?<br>– How can businesses address human rights concerns across the supply chain as new value chains are created?<br>– What are our customers doing and what will they expect from us as a supplier in relation to the just transition?<br>– How can the business influence the downstream value chain impacts of the transition? |

**Source:** Deloitte Global, *The Chair's Guide to Realizing Value from a Just Transition*, 2022.

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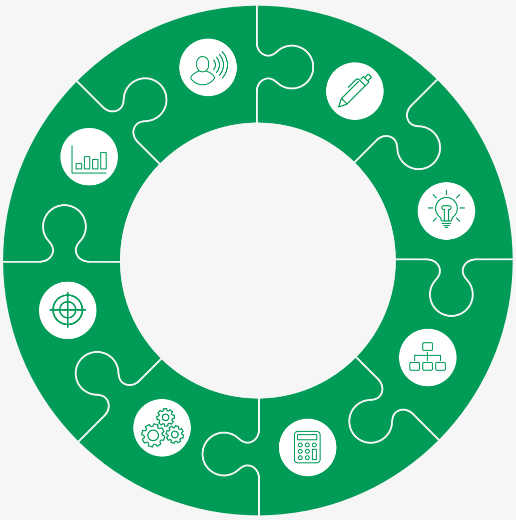
# Principles for effective climate governance: just transition

The transition to a climate-neutral economy will transform the way people, communities and, ultimately, businesses operate. Implemented effectively, a just transition can enhance long-term enterprise value. However, this requires strong leadership and governance across the business.

Chairpersons and boards should understand how the just transition integrates with the World Economic Forum's How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions.[21]

FIGURE 3 **Applying the principles for effective climate governance to a just transition**



### Principle 1: Climate accountability

As part of its fiduciary duty, the board should oversee the effective management of a just transition, including systems and processes to encourage stakeholder acceptance and adoption of new ways of working.

### Principle 2: Subject command

Diversity in knowledge and skills on the board and regular training on the wide implications of transition are necessary to the debate and to make informed decisions for a climate-neutral organization.

### Principle 3: Board structure

The board and sub-committee charters may need to change to incorporate elements of the just transition, such as obligations to carry out responsibilities in accordance with just transition principles.

### Principle 4: Materiality assessment

The board should maintain oversight to assist management to assess the materiality of just transition risks and opportunities and ensure that the business's actions are proportionate to the materiality.

### Principle 5: Strategic integration

The board should ensure that the just transition framework systemically informs strategic investment planning and decision-making processes.

### Principle 6: Incentivization

The board should align executive incentives with long-term targets related to the just transition.

### Principle 7: Reporting & disclosure

Material just transition risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders.

### Principle 8: Exchange

The board maintains regular dialogue with stakeholders, including peers, policy-makers, investors, customers, suppliers and communities.

# Acknowledgements

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