

We've Created Braver Boards and Braver Leaders

Guest Speaker **JULIE BADDELEY**

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Nik Gowing

Welcome to Talking about Thinking the Unthinkable, our latest leadership conversation and podcast. Hello. I'm Nik Gowing, Founder & Director of the Thinking the Unthinkable project since 2014.

I need to say this one more time: Science is making it clear that the need to confront and embrace the climate and nature emergencies is ever greater and more urgent. The need for a transition path from where we are heading and where we need to be is equally great and equally urgent. So is the need for leaders of all kinds to define and adopt that path for their companies or organisations.

How can that be achieved? How can waivers and reluctance be persuaded? That's the enormous challenge I'm exploring with my podcast guest, Julie Baddeley. It's having significant success, as we'll hear. Five years ago, Julie led the creation of Chapter Zero. It started with a handful of leaders and board directors who realised their businesses had no option but to draw up plans to transition and respond to climate change. They had to be equipped, ready to talk about it, and prepared to act.

Well now, Chapter Zero is well over 3,000 leaders in the UK and an enormous network around the world in 73 countries, maybe 100,000 people. Julie, welcome. In these 18 minutes, let me hear from you: What does this remarkable growth of Chapter Zero really tell us about the willingness of leaders to commit to the new reality and to change? How can reluctance and waivers be persuaded? How will they do it?

It's a really interesting challenge, Nik. I mean, I've watched the growth of interest and attention on this topic over the five years that we've been operating.

Julie Baddeley

And if we're honest, when we started, only a handful of boards had even discussed climate change in 2019—probably those who were in the fossil fuel industry or energy generation. Now, I think there can hardly be a board of a large company in the country that hasn't had it on the agenda. So, it's really firmly moved up the business agenda.

And I think what people are seeing—and certainly our Chapter Zero members tell us—is that the way to get attention to this is to frame it as a business conversation, which it absolutely is. It's not just about doing something that's good because we should be doing the right thing, although you and I know that that is the case. So, this is now firmly a business topic. Climate change needs to be embedded in your business strategy.

Nik Gowing

The urgency really understood and appreciated now in the ways that I described at the opening.

Julie Baddeley

I think it is by some. I think the landscape is quite difficult for boards. I mean, there are a lot of headwinds of all different sorts. We've had a pandemic since we started, and we have all sorts of economic shocks going on. We've got wars. There's a lot on people's agendas, which means that it's not a straight line in this urgency conversation.

You know, at one point after COP 26, companies were really setting very ambitious targets for when they would get to net-zero. And I thought that was great because my experience of business, which is now, you know, too long—45 years—is that if you don't set ambition as a board, you certainly won't get there. But equally, a lot of those ambitions were not very clear on how companies would achieve them.

So then there was a period where I think everybody suddenly started to smell the coffee and realised that it's not as easy as just saying, "We will get to net-zero by 2030, 2040, or 2050." It's exactly about how you actually make that happen within a complex organisation. I mean, one of my boards has operations in many, many countries around the world, because I do sit on commercial boards as well as chairing Chapter Zero.

So, I think that the urgency has made people see it as being a lot closer, but they've also recognised the challenges around delivery. That's the bit we have to get over. We have to get people to see this as an investment—a vital investment that you cannot avoid for the future, for the survival of the business and the economy—as opposed to a discretionary spend and a cost. It shouldn't be seen as something that maybe we can't spend the money on this year and should spend on something else instead.

Nik Gowing

Talked about waivers and reluctance—that's my phrase, not your phrase. But there are those who still can't quite see why this is not just an opportunity, but an opportunity that is going to be profitable and better for the business.

What kind of language, what kind of argument do you and your fellow leaders use to persuade those who have already been persuaded? What kind of language do you use to persuade those who are still maybe a bit reluctant to commit?

Julie Baddeley

I think the most important conversation in the board, in any context, is about business strategy. That's all boards are there for: to set strategy.

And the really important thing with this topic is that it isn't seen as something that gets done in a silo, in a separate part of the organisation, and then sort of presented to the board on a series of slides. Climate and nature adaptation, mitigation—these aspects of the challenge we face are fundamental to a lot of companies' commercial business strategy. They present huge opportunities, but they also present some very significant challenges.

So if you're in a food business, for example, if you're Diageo, you have all sorts of issues around water and nature. If you're in an energy company, you have all sorts of opportunities. And it varies very, very much by sector. But the key to this, from a non-executive and board perspective, is to move it from being a separate conversation into a fundamental business strategic conversation.

Nik Gowing

Take a lot of persuading internally in many of these companies.

Julie Baddeley

I think you find actually bottom up is, is in some ways more powerful than top down.

Nik Gowing

You mean fresher from the lower levels.

Julie Baddeley

Yes, I think the young are very, very focused on this. I mean, we have a huge skills issue that chief executives tell us is the biggest challenge to delivering net-zero. We just haven't— in my generation, we haven't developed finance people, marketing people, product design people, operations people, you know, right across our businesses or in all the firms that advise our businesses, like the firms of accountants and lawyers and all the other people in the ecosystem. We haven't developed a whole generation of managers who really have the expertise in this.

It's very, very new to people. If we repeat the fact that it wasn't really on the board agenda five years ago, you don't develop a whole new skill set in five years. So really, what we're trying to do now is

plug that gap and try to embed this whole thinking right through an organisation. And in some cases, you've got 20,000 or 30,000 people. But my observation is that the young really are focused on this.

To get young talent, you really need to demonstrate your credentials, and they have a huge amount to bring to bear. So, you know, if you've got people running divisions of a manufacturing business, they've got all the ideas around how to reduce energy consumption in that business or how they might change their processes to meet this challenge. It's just about harnessing all of that through the organisation.

Nik Gowing

Give me an example of a big company which is really taken to the Chapter Zero message and is acting almost as a disciple for everything that you've achieved. I remember talking to you five years ago when you wondered if you'd get to 100; I think you had 25 at the time. Now you've got this enormous network.

Julie Baddeley

Yes. And I mean, there are some fabulous examples in the global network too, and companies. One of my messages is, just get started on this. Just get your plans in place. Even though, as I said earlier, you've got an ambition that you've set, and you may be now thinking, well, perhaps we were a bit, you know, too gung-ho on that. But there are some brilliant examples of companies which have exceeded their ambitions.

I mean, interesting one, I think, is Maersk, who, you know, they sat in the boardroom company. Yeah, absolutely. There's. Out in the boardroom, they said, how can we get a net-zero ship, a carbon neutral ship? Oh, well, it's going to be really difficult. It's going to take a very long time. And they set themselves an ambition. They said, We will. We will have a net-zero ship. They actually had a net-zero ship by 2023 which was several years earlier than they'd originally intended. And they then brought their net-zero corporate goal back from 2050 to 2040 and that's a shipping company which you wouldn't think of as being, you know, the most obvious, easy, easy one to do.

I mean, coming back closer to home, a company like SSE set its net-zero ambition a long while ago, but they've then been able to achieve them well ahead of where they expected. They've also got some brilliant financing that they've got from having these great plans in place where they've been able to raise green bonds and money at advantageous rates to support their transition away from all the original energy production that they were doing into renewables. So there are...

Nik Gowing

What's the key in all of this that's opening the door? Is it attitude? Is it training? Is it skilling? Is it open minds?

We talk about it as creating new "mind muscle," in other words, to think more radically, to think more bravely, even if it doesn't all work out perfectly in the beginning.

Julie Baddeley

Yeah, I think you need a combination. I think it needs and it sort of iterates. So, I think that you absolutely need that open mindset, and you need people who are prepared to take some risk. You know, it's quite brave to change your whole product set, for example, when it's making loads of profit. But actually, you know, it's not a sustainable product set going forward; that's a brave board decision.

You have to be, you know, really brave to invest many million pounds in an electric vehicle fleet, and then you find the government policy changes, and your board is in, you know, serious discussions about that. So it requires a lot of courage, and that is a mindset thing.

But then as soon as you've opened up that conversation, and a lot of it gets led by the chair and the chief executive, you know, they need to sort of open up the minds for that. As soon as you've done that, then people are really thirsty for knowledge. They really want to understand, you know.

I've been a non-exec director of companies and an executive for that matter, FTSE 100 and all other sorts, really, lots of, you know, privately owned and smaller businesses as well. And I've done that for more than 20 years, and until this recent time, we never had to have a conversation about the environment or climate. You know, we didn't. It just wasn't something that we talked about.

So actually, you really have a lot of learning to do, and you're dealing with boards that are very, very knowledgeable and experienced at dealing with the strategic business decisions they make normally, and all the discussions about return on capital employed, and all the things that we all do all the time, but you haven't had to have a conversation within the context of, how do we hit a 1.5 degree limit on global temperature rise?

Nik Gowing

You talk about the board there, Julie. You talk about the board. Well, what about taking the shareholders and the funders, the financiers, with you? How much is that a problem? I mean, how much do they have to be convinced?

Because there is an enormous amount of cash around at the moment and an enormous amount of investment going on. Are the two coming together now?

Julie Baddeley

They are, but I think that they can come together significantly more. I mean, this is a really, really interesting part. This is a whole system change we're talking about, isn't it? It's not one company delivering one plan. This is changing sectors. It's changing whole economies. It's changing the way the global economy works, and the sources of capital are a massively important part of that.

And it's not just equity. It's also lending, because actually, companies are, in some ways, more influenced by the lending side of things than they are by the shareholders. Although, as I always remind people when I speak about this, you know, boards don't like having a negative vote from

their shareholders. So there's a lot of influence, symbolic influence, coming through the shareholder vote.

But what I've observed is that there is a wider spread amongst the investors in terms of level of engagement and interest on this. There are some who, right from the beginning when we first started, have been absolutely, you know, really clearly focused on this being something that they absolutely need to watch out for and support action, but also watch for risk, and they understand that whole scenario going forward. But there are others who still would put short-term profits ahead.

And there's also a difference within the investor community between the people who are encouraging all of this action and the people who are making the decisions day to day on which stocks they buy. They're not always completely aligned, so I think there's a lot more alignment now and a lot more interest and support behind this whole transition. But...

Nik Gowing

Can we call it the transition train? Jumping on the transition train, we've got about three minutes left.

Julie, what's the big message about how adapting and adopting the transition train is actually a profitable, positive way forward? And really, is it not worth getting hung up about your concerns and risks, or am I being a bit too blasé about this?

Julie Baddeley

No, not at all. But, I mean, that's where the boardroom conversation has to happen. We have to be able to have those open conversations. I mean, people tell us there's three to \$4 trillion worth of investment per year available for all of this. And some companies, I mean, someone like Siemens would say 92% of their products have been designed now to help their customers change their carbon footprint. So it's a really broad business opportunity.

But the thing that I would say to anyone listening to this is, just get started with the thinking. Don't be concerned about publishing a plan with milestones which they must have short-term milestones, but where you might have to change those outcomes in a year's time. This is something which we will not get right the first time. Any company you talk to who's done two, three, four transition plans will say each year they've had to change it, because as you go through the journey, it changes, and you have to refresh your plan.

So unlike many things we do as boards, I think we need to be prepared to put that plan out there, put all the assumptions in, so that everybody knows where we've been coming from and what we've based it on. Then in a year's time, if we have to adjust and flex, that's just normal course of business.

Nik Gowing

Finally, Julie, I mean, when you look at the science, and I mentioned that right at the beginning in the intro, that the science is getting even more worrying by the week, almost with the kind of scientific evidence that there is, are we going to have Transition Plans which meet, particularly the 2030 targets as opposed to the 2050 targets? In other words, we've got to be moving even faster.

Is that something that you believe, that businesses and boards are really engaged in and really understand now they've got to keep raising the tempo?

Julie Baddeley

We definitely have to raise the tempo. I mean, we're running out of time, and we've slipped back, really, because we've been saying this for several years. I used to have a number of days to when we had to get to halving emissions, but I've sort of run out of doing it now, because it's so depressing.

But I do think boards, many boards recognise the urgency of this, but there is a little bit of a myth out there that we can slip past these deadlines and then claw it back in some way. And if I dispel any myth in this podcast, it's the fact that we have control over nature in this topic. You know, there are tipping points out there, and if we slip past the deadline and don't get these emissions down in time, we will lose control of it.

And I don't think it's realistic to think that we can actually then bring the temperature back down. I think we have to get ahead of the game.

Nik Gowing

Thanks, really a very sobering thing to say at the end, but you have given a lot of hope and a lot of inspiration, I think, to those who are watching, particularly those who maybe are not aware of Chapter Zero. So thanks enormously for joining us.

And you can reference every detail that Julie has given during this podcast on a transcript which is being published at the same time as you are accessing this video. So do please check that out. It's a more time-efficient way of looking at what Julie has said. Thank you so much.

Do please join us when we next have a conversation about thinking the unthinkable. From me and Nik Gowing, until the next time, keep thinking unthinkables. More than ever, as we've just heard from Julie, it's both possible and necessary.

Bye-bye.