

Why businesses underestimate the need to adapt to extreme climate events

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Credit: University of Manchester

What the [Stern Report](#) did in 2006 for climate mitigation and the need to reduce carbon emissions, former UN Secretary General Ban Ki-moon now tries to do for climate adaptation: Show the numbers! This week, the Global Commission on Adaptation that Ban Ki-moon founded together with Bill Gates and Kristalina Georgieva of the World Bank, published its [Adapt Now report](#), stating that investing \$1.8 trillion in climate adaptation now will lead to a total of up to up to \$7.1 trillion in net benefits. The message is clear, investing in climate adaptation to better cope with extreme weather and rising sea levels makes economic

sense. But why are we not doing it then?

The [climate emergency](#) might be grabbing the headlines, lots of confusion remains about terms like mitigation and adaptation and the difference between them. People have always felt uncomfortable to admit the need for adaptation, as it could be seen as no longer trying to push for mitigation and reduce [carbon emissions](#). Still, while the [climate policy](#) has long discussed mitigation and adaptation both as necessary responses, the [business world](#) has been much slower to acknowledge adaptation as a strategy to tackle [climate change](#).

Adaptation is a confusing concept for business. Often, when managers talk about how they do adaptation, they will explain how they are improving their carbon footprint. But this is mitigation. And when you explain what we mean by adaptation, every manager will tell you that their business is always adapting to changes in the environment, also those related to weather and climate. Food producers, insurance companies, they all monitor weather patterns and analyze how any changes might affect their assets. It is part of business-as-usual.

Our research shows that the business-as-usual mindset could be a mistake. It leads businesses to underestimate the out-of-the-ordinary of climate disruptions and the need to radically change business practices to be resilient when experiencing extreme weather events. [Studying oil firm responses](#) to the Carbon Disclosure Project on [climate adaptation](#), we found that oil firms have the tendency to see climate signals as nothing new. They don't see a need to change their business practices because they feel prepared. Many climate signals are just considered part-and-parcel of operating under extreme conditions such as in the Arctic. We found a similar dynamic when Shell openly responded to critique via a public Webchat on arctic drilling. Shell engineers were convinced that they could handle the extreme conditions and there was no additional risk. Still, [in 2015 Shell abandoned](#) its plans to drill in the Arctic,

apparently due to the disappointing discovery of oil and gas.

Why do firms underestimate the importance of climate signals and fail to see the need for a radical overhaul of their operations? We found that it has much to do with how they process climate-related information in their business. The people responsible tend to suffer from selective attention. They only notice certain signals related to climate change while ignoring others. Much of what they see as climate change depends on the source of information they consult. The IPCC reports, for example, might raise awareness but they lack the specificity needed for [business](#) to understand how climate disruptions them. The selective attention also leads to a focus on current activities only, discarding long-term developments.

What was most surprising, maybe, is that firms with well-developed risk management systems and those that frequently experience [extreme weather](#) are more likely to underestimate the need for climate adaptation. Paradoxically, being prepared now might leave them underprepared in the long run. Their risk management systems are typically based on [past experiences](#). But, as with financial markets, past experiences do not form a guarantee for developments in the future. By relying so much on the past, firms might fail to see the need for radical measures to deal with the unexpected. The major problem of [climate](#) adaptation is that we don't yet know what nature will throw at us, there is so much uncertainty. Businesses that seem well-prepared might therefore very well be the ones taken by surprise as well. Even if, deep down, they know radical change is necessary, they act as if current measures are sufficient. A change in mindset seems long overdue.

More information: Jonatan Pinkse et al. Managing Physical Impacts of Climate Change: An Attentional Perspective on Corporate Adaptation, *Business & Society* (2016). [DOI: 10.1177/0007650316648688](#)

World Bank Adapt Now report: cdn.gca.org/assets/2019-09/Globally-Adapted-World-Adaptation-Report-FINAL.pdf

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