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Research Report

A new framework for how firms can manage climate risks

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Editor's Note:

This is a Brookings Center on Regulation and Markets working paper.

Executive Summary

As the climate crisis worsens, it will bring substantial risk to businesses' assets and operations. Many firms have yet to implement a comprehensive framework and take company-specific, preventative measures to protect themselves. With threats ranging from increasing environmental hazards for workers to supply chain disruptions resulting from sporadic inclement weather to production shortages due to decreased resource availability, businesses will likely face a wide range of climate-related challenges and need to be prepared.

In this paper, we propose a novel managerial framework for businesses that will help them address many of these threats and fully integrate proactive steps into their operations model. This "Climate Risk Planning" framework includes:

1. Identifying the risks associated with climate change
2. Assessing the climate risk impacts on the strategic objectives of the firm
3. Integrating the risk assessment findings into strategic decision making
4. Implementing measures to mitigate the risks and exploit new opportunities

Additionally, we illustrate both the theoretical foundations of each of these components of the framework as well as examples of firms from various sectors—including manufacturing, energy production, and natural resource extraction—that have successfully implemented these steps. We also illustrate how companies can utilize strategic

decisionmaking tools to implement the framework, and, in turn, how a firm’s financial returns can be not only protected from but better adapted to climatic events and their inherently volatile effects.

FIGURE 1

Framework for strategic management in response to global climate change

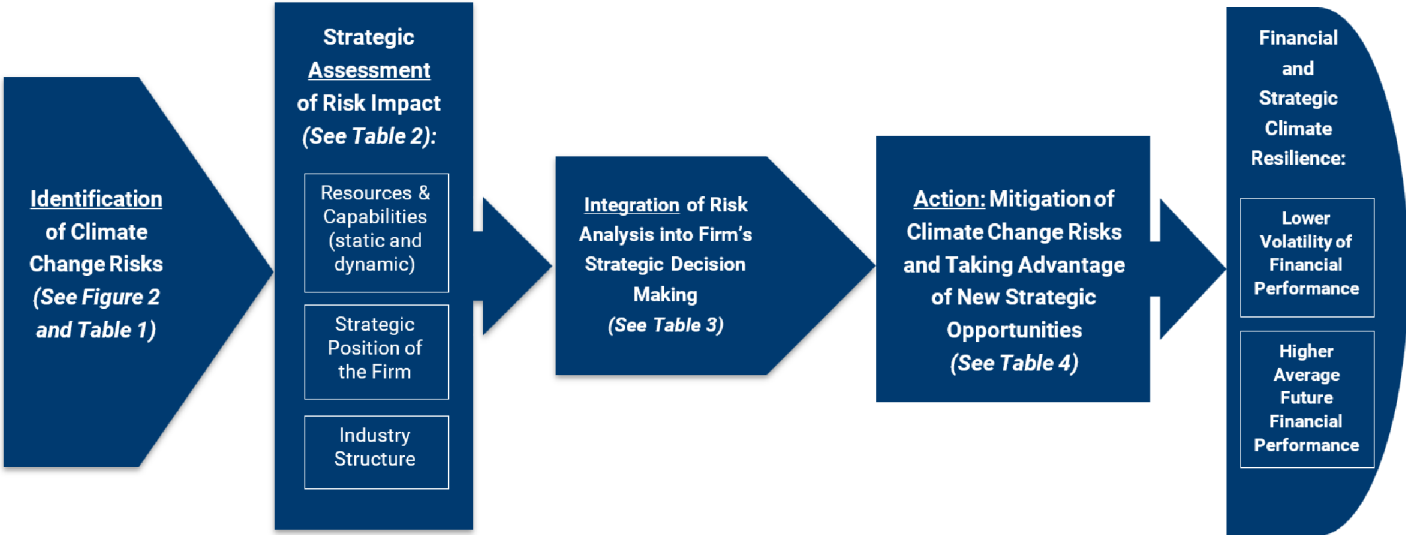
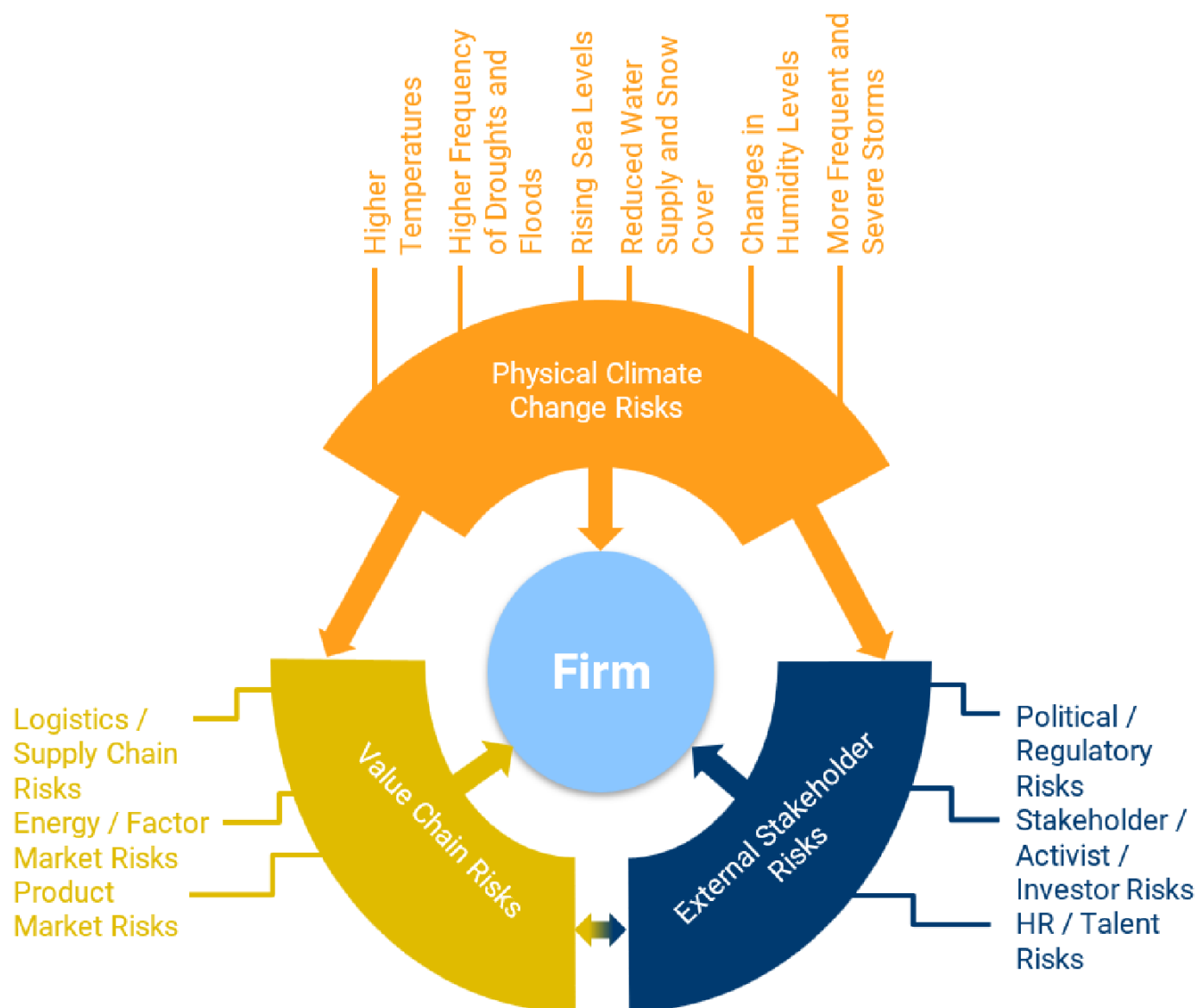


FIGURE 2

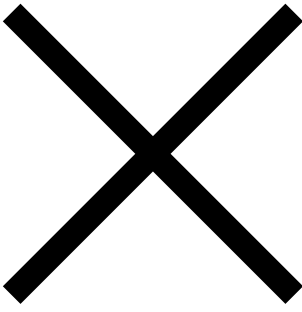
Identification of climate risks



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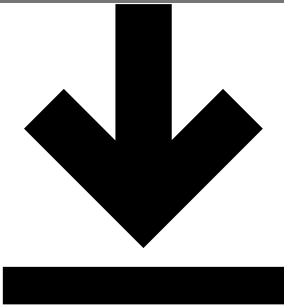
Download the full working paper [here](#).

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