4.8 CLIMATE-RELATED TRANSITION RISKS

Case study 5: Reputational-related risks

Important notice
This unit is part of a package of learning materials designed to support understanding of foundational concepts relating to climate-related financial disclosures. These learning materials do not constitute application or regulatory guidance for the preparation of climate-related financial disclosures and are not intended to represent legal or professional advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* (Corporations Act) and other relevant laws may apply to you and your circumstances, as it is your responsibility to determine your obligations and comply with them.

The company featured in this case study is entirely fictional and presented for illustrative purposes only. It is not intended to represent any real business, past or present. Any resemblance to actual entities is purely coincidental. Different entities have different climate-related risks and opportunities, and so this scenario may not be relevant for your entity.

Key topics

- Climate-related transition risks for entities – reputational-related
- Impacts on entities' strategy and operations

Relevance for climate-related disclosures

This unit's case study will help you to understand how climate-related transition risks, in this case a reputational-related risk, can impact entities. Reputation is often a key aspect of how climate-related risks manifest in business.

Overview

This unit explores a case study designed to illustrate key concepts related to climate-related transition risks, specifically reputational-related risks. It is a hypothetical example involving a fictional hospitality business in Victoria, grounded in a plausible scenario when public expectations and social norms shift faster than an entity's strategy. It may give you practical insights into:

- understanding reputational-related risk as a climate-related transition risk
- identifying potential triggers of stakeholder concerns
- assessing financial, operational and strategic consequences, and
- considering proactive mitigation and response strategies.

Introduction

This case study may help you reflect on how similar climate-related reputational risks could affect the operations and financial performance of your entity. The scenario is intended to prompt consideration of potential vulnerabilities and resilience strategies. This scenario does not describe real events or a real entity but is grounded in realistic conditions where inaction, inconsistency or a lack of transparency may affect your reputation and value.

Sector: Hospitality - food and beverage

ASIC Australian Securities & Investments Commission
Australian Government Australian Accounting Standards Board
UTS
STUDIO THREE LEARNING

Business: Cafe and catering chain
Location: Victoria
Transition risk type: Reputational-related

What is the scenario?

CarbonBrew Coffee Co. is a chain of cafes in Melbourne with an integrated coffee roasting business. It promotes itself as a low-carbon brand, and its website highlights regenerative coffee sourcing, carbon-neutral roasting facilities and electric delivery vehicles. The business has gained strong traction with environmentally conscious consumers and supplies coffee to several corporate clients who include sustainability criteria in supplier selection.

However, in early 2025, a local sustainability influencer publishes a series of online reviews pointing out problems in CarbonBrew's supply chain related to deforestation and fertiliser use, and that CarbonBrew still uses plastics and non-compostable packaging during transportation, despite its climate-friendly branding. The posts question the credibility of the brand's net zero claims.

The posts go viral and trigger hundreds of comments, and a small protest outside one of the cafes makes it into the local news. Several wholesale customers pause orders pending clarification. Online ratings drop, and the brand's sustainability reputation, which was a key market differentiator, takes a hit. Although the entity had good intentions, it had not fully investigated all supply chain practices and, even when aware of issues, delayed changes due to cost concerns.

What are some potential business impacts?

Financial

- Suspension of wholesale contracts
- Drop in retail foot traffic and online orders
- Unplanned cost to fast-track sourcing and packaging changes
- Opportunity to regain market share and attract new customers by introducing verified sustainable products that align with growing consumer demand for transparency and low-impact packaging

Operational

- Rapid switch to different suppliers and packaging solutions
- Staff retraining and updated customer communications
- Additional resourcing to manage public and media inquiries
- Opportunity to strengthen supply chain agility and internal communications systems and to improve CarbonBrew's ability to respond to any future disruptions

Strategic

- Pressure to re-establish sustainability leadership
- Opportunity to rebuild brand trust and competitive advantage through credible sustainability certifications and proactive stakeholder engagement

Governance

- Internal review of sourcing policies and marketing claims
- Introduction of controls to verify and track sustainability performance
- Opportunity to enhance governance by embedding robust sustainability verification and reporting mechanisms to ensure ongoing accountability.

What is the response strategy?

CarbonBrew issues a public statement acknowledging the shortfall and commits to rectifying the issues in its supply chain within six months. It engages a third-party verifier to provide assurance over its low-carbon claims and publishes a transparent impact report. Internally, the business strengthens oversight of climate-related marketing and introduces a sustainability claims review process.