

PURPOSELY'S NET ZERO OPTION - GUIDANCE

Some businesses are very committed to tackling climate change, but it can be difficult to demonstrate the sincerity of this commitment. In addition, it can be difficult to tell from the outside the difference between genuine 'green' credentials and businesses that might be 'greenwashing'.

One way to demonstrate this commitment is by adopting a 'net zero' target into the business' constitution, making it clear that reducing greenhouse gas (GHG) emissions is a core part of the impact the business intends to have on the world. Also, putting this commitment into the articles of association of the company enables the board to bring emissions reduction targets into the heart of governance.

Purposely's Net Zero Option shows businesses one way to make this constitutional commitment, to help take meaningful action towards creating a 'net zero economy'. The Net Zero Option provides wording that can be integrated automatically by the Purposely platform into its four model articles of association. You can choose to incorporate the Net Zero Option wording when you go through the questionnaire that helps you select which of the Purposely models best matches your business.

Net zero and the Paris Agreement

The Net Zero Option reflects the key goals of the [Paris Agreement](#), an international treaty on climate change. Its main goal is to limit global warming to well below 2°C, and preferably to 1.5°C, compared to pre-industrial levels. The countries that ratified the Paris Agreement must work to achieve a climate neutral world by 2050, which means creating a balance between sources of GHG emissions and their removal – achieving 'net zero' GHG emissions. All businesses can support the achievement of this global goal by working towards net zero emissions across their operations.

Net Zero and Carbon Neutral

There's lots of terminology around emissions targets and it's important to be clear about what a business' climate commitments mean. For example, 'net zero' and 'carbon neutral' are not necessarily the same thing. You can read more about the terminology on the [Net Zero platform hosted by the University of Oxford](#).

Purposely's Net Zero Option includes 'Scopes 1, 2 and 3' emissions. The Net Zero Option requires businesses to use 'offsetting' or 'carbon credits' as little as possible, focusing instead on reducing emissions.

How does the Net Zero Option work in the articles?

The Net Zero Option is written differently within each of the four Purposely model articles of association. (You can read about the key features of each of the models in the [Purposely Models Guide](#).)

Models 2, 3 and 4 are designed for businesses taking a 'triple bottom line' or primary social purpose approach. In these models, the Net Zero Option obligates the business to work to reduce its GHG emissions, in support of the Paris Agreement goals, as part of its social and environmental impact. This commitment is written into the purposes, or 'objects', of the business, making it part of the objectives that the directors must work towards.

In Model 1 (designed for businesses whose primary stakeholders are their shareholders), the net zero commitment does not form part of the objects. Instead, it is written into the articles so that it informs the factors the directors consider when making a decision, as long as doing so aligns with the interests of the company's shareholders.

A company's articles of association are available on the Companies House register. Therefore, putting a net zero target into the business' articles helps demonstrate that the business is committed to addressing climate change.

What does this mean for the directors?

Directors must act in good faith and in accordance with their duties in furtherance of the business' purposes that, using the Purposely models, are set out in the articles. By incorporating the Net Zero Option, the business must work to reduce its GHG emissions as part of creating a positive impact on society and the environment (in Model 1, as part of operational decision-making, where this is compatible with the interests of the shareholders).

The Net Zero Option does not create new forms of liability for the directors. The Purposely model articles state that stakeholders are not granted any new rights of recourse as a result of the business adopting its purpose into its constitution. The directors' duties remain owed only to the company.

If the directors do not, in good faith, work to reduce the business' GHG emissions in accordance with its articles, it may be possible that they could be liable to the company for this omission. However, the directors will not necessarily be liable because they failed to meet specific emissions reduction targets in any given year, in the same way that a failure to meet financial targets will not necessarily incur liability, as long as the directors have acted in good faith and in accordance with their duties.

The Statement of Responsible Business Principles

All Purposely model articles include a Statement of Responsible Business Principles in the appendix; these are the [Five Principles of a Purpose Driven Business](#) designed by Blueprint for Better Business. The directors must seek to run the business in line with these principles. The business can choose to use another set of responsible business principles if preferred, which is why these principles are in green text in the Purposely models.

The Net Zero Option adds a new principle 6. If the business chooses to use an alternative set of responsible business principles, principle 6 should be retained in the drafting as part of incorporating the Net Zero Option. Principle 6 sets out the headline measures by which the business should implement its net zero commitment:

- a) setting a 'Net Zero Target',
- b) reducing its GHG emissions over time,
- c) creating and implementing an 'Offsetting Strategy', and
- d) fostering climate resilience through the company's policies and other measures in support of climate change mitigation and adaptation.

Net Zero Target

As part of finalising your articles, **you must specify within the definition of “Net Zero Target” the year by which your business intends to achieve net zero GHG emissions.**

The business’ climate goals should be ambitious, but also realistic. The Net Zero Target should be supported by a plan with short, medium and long-term milestone targets, as part of the business’ wider strategy. To demonstrate that its commitment is meaningful, the business could add to its definition of “Net Zero Target” a specific interim target, such as a date by which the business will commit to halving its emissions.

Offsetting Strategy

Offsetting, through purchasing credits, may help businesses mitigate some of their GHG emissions. However, offsetting is not considered to be a solution to climate change. In the Net Zero Option, offsetting is intended to be a tool to help the business reach net zero, if needed, but only while working to reduce emissions to those that are unavoidable and, therefore, reduce the need for offsetting to the bare minimum.

Some businesses are innovating to create deliberate carbon sinks as part of their land use or in other operational areas, which may contribute to reducing their carbon footprint. This reduction may or may not be measured and third party verified, but may be pursued by the business in place of using carbon credits as part of an offsetting strategy. Where this is the case, the business may wish to amend the definitions of “Offset”/“Offsetting” and “Offsetting Strategy” to state its objectives for its work in creating local carbon sinks.

Going further

If the business wants to create more ambitious climate commitments, it could consider adopting a ‘net negative’ or ‘climate positive’ target, by working to remove more GHGs from the atmosphere than it emits. It may be desirable to include a specific target for reducing or stopping the use of offsetting, to help focus the business on reducing its emissions. After adopting the Net Zero Option, the board could consider measures such as linking executive performance incentives to the business’ emissions targets.

The Purposely model articles and the Net Zero Option provide a template to help you to embed your purpose into your business, and demonstrate one way to commit to achieving net zero. You should tailor these models to your business’ situation, as needed. **Please consider whether you need to seek legal advice to help you with your articles and read our [Important Notes section](#) before using the Purposely model articles.**

Suggested resources

For more information on reaching net zero, you may find the following third-party resources helpful:

- [The UK Business Climate Hub](#)
- [Net Zero platform, University of Oxford](#)
- [The Oxford Offsetting Principles](#)
- Carbon Trust’s [SME Carbon Footprint Calculator](#)
- [Science Based Targets initiative \(SBTi\)](#)
- [Business Declares](#)
- [The B Corp Climate Collective](#)
- [The Transition Plan Taskforce](#)
- The UN-backed [Race to Net Zero](#) campaign