Climate Transition Planning as Financial Governance: How Finance Professionals Translate Transition Uncertainty into Capital Decisions

Since the development of the Science-Based Targets initiative, greenhouse gas (GHG) emission target setting in line with the Paris Agreement has accelerated (Bjørn et al., 2022). Climate-related transition risk is now widely recognized as a material financial risk affecting capital allocation, asset valuation, and corporate governance (TCFD, 2023). In order to cut GHG emissions to net zero by 2050, transition planning and the disclosure of transition plans are vital in developing corporate's share of the way forward (TPT, 2023). Climate change transition plans seek to improve and maintain the well-being of people and ecosystems. It is a process of designing specific objectives with the ultimate goal of achieving a corporate development pathway that reaches the goal of a maximum of 1.5°C corporate global warming contribution (IUCN, 1997, IPCC, 2023). Climate transition planning is increasingly expected to shape capital allocation decisions under climate uncertainty (Carney, 2015), yet its impact on actual investment and financing choices remains unclear. In particular, little is known about how climate transition plans influence financial decision rules, investment timing, and capital allocation under uncertainty.

This paper responds to calls to move beyond disclosure-focused research and examine how climate transition planning shapes financial decision-making in practice (O'Dwyer and Unerman, 2020; Bebbington et al., 2023). Prior research cautions that sustainability reporting risks becoming formally compliant while remaining weakly connected to organizational decision-making. The important role of finance professionals has been cited as key area for future progress. O'Dwyer and Unerman (2020) state that "As a major aim of consistently reporting climate risk dependencies information is to inform investment and other financing decisions, the finance sector needs to develop skills in understanding this novel information" (p. 1116). Building on this literature, the paper asks: How do financial decision-makers translate climate transition uncertainty into capital allocation decisions, and what organizational mechanisms determine whether transition plans affect investment outcomes?

The study draws on an analysis of 30 in-depth climate transition plans and reflection reports developed by finance professionals participating in an advanced business education program in 2025. The empirical material is complemented by structured peer-review feedback and a post-assignment survey capturing perceived barriers and enabling conditions. The setting provides a unique lens on how financial decision-makers reason about climate-related investments under

uncertainty. The analysis employs the Matrix Method (Groenland, 2018), enabling systematic cross-case comparison while preserving sectoral and organizational specificity.

The findings yield several core insights. First, finance professionals use transition plans to make climate-related uncertainty explicit, comparable, and discussable within financial and executive forums. Scenarios help structure strategic dialogue, align assumptions, and elevate climate risk from a sustainability issue to a financial concern enabling climate risk to enter financial decision-making processes and investment discussions. This cognitive and organizational work represents a critical precondition for effective climate finance. Second, while transition planning enhances understanding, its influence on capital allocation remains mediated by existing financial governance structures. Most plans prioritise strategic robustness and optionality—such as phased investments, pilot projects, conditional commitments, and portfolio diversification—reflecting investment behaviour consistent with real-options logic under uncertainty. This pattern reflects rational behaviour within financial governance systems that are poorly equipped to absorb long-horizon uncertainty. Third, the analysis shows that the primary constraint is not information availability, but the structure of financial decision-making systems that govern capital allocation, including budgeting cycles, performance metrics, and capital approval rules. Budget cycles, KPI frameworks, and accountability mechanisms often absorb transition insights without converting them into binding financial consequences. At the same time, the plans clearly identify where governance redesign—linking scenarios to capital approval rules, performance metrics, and escalation mechanisms—could unlock stronger financial steering.

Taken together, the findings suggest that a central challenge in climate finance is not the measurement of climate risk, but the integration of such risk into financial decision-making systems that govern capital allocation. Finance professionals already possess the analytical capacity and strategic awareness required to engage with transition uncertainty. Realising the full potential of transition planning therefore depends less on producing better plans, and more on reconfiguring financial governance to make long-term uncertainty actionable. For policymakers and supervisors, this suggests that transition plan mandates should be complemented with clearer expectations on financial integration and accountability. For finance leaders, it highlights a constructive role: by redesigning financial governance, finance can move from interpreting transition risk to actively steering capital toward climate-aligned outcomes.

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