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ACCELERATING TOWARDS A SUSTAINABLE FUTURE

A recent report by the World Economic Forum outlined concerns that sustainability could be slowing down on the agenda for Boards due to the volatile global economy. Criticaleye's **Grace Palmer** talks to senior leaders about how to hold true to their sustainability commitments while navigating myriad social and economic headwinds

Global climate data has revealed the hottest week in 125,000 years unfolded in July, with heatwaves and forest fires engulfing large swathes of southern Europe. These alarming developments simply underline the paramount importance of governments and businesses achieving their environmental goals.

However, the World Economic Forum (WEF) outline in its report, *Fostering Effective Energy Transition 2022*, that added cost pressures and squeezed profit margins are forcing some businesses to scale back on their commitments to tackling climate change.

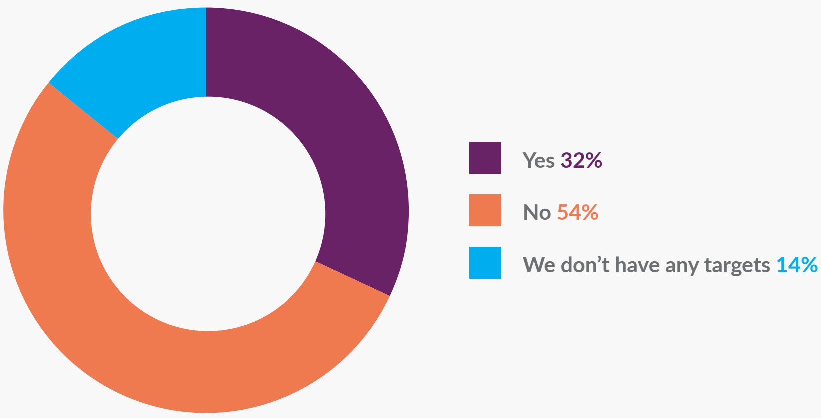
This certainly presents a problem as businesses need to be doubling down on their green commitments. A report by Accenture, *Accelerating Global Companies Towards Net Zero by 2050*, found that while just over one-third (34 percent) of the world's largest companies are now committed to Net Zero, 93 percent won't achieve their goals if they don't at least double their rate of emissions reduction by 2030. Clearly, this is not the time to kick sustainability into the long grass.

> *"Unfortunately, we are going to see more companies trying to backpedal on their sustainability commitments"*
>
> Dominic Emery

Lorcan O'Connor, Group CEO of Córas Iompair Éireann (CIÉ), summarises the problem. "Given the various economic pressures facing businesses at the moment, it's inevitable that questions will be asked about the benefits of an organisation's sustainability strategy," he says.

A similar point is made by **Dominic Emery**, former Chief of Staff at BP and now a Board Mentor at Criticaleye. "With some organisations, sustainability strategies have clearly become more abstract and deprioritised," he comments. "Unfortunately, we are going to see more companies trying to backpedal on their sustainability commitments in certain circumstances. There are a number of reasons companies have had to water down their targets, with one of the primary reasons being short-term investors saying, 'We think you're going too fast'."

Is your organisation moving fast enough to achieve its targets for Net Zero?



Source: Criticaleye CEO Retreat 2023

A Numbers Game

It can be challenging for organisations to justify green investments as higher interest rates increase the cost of debt financing, while the potential for a short-term windfall from these long-term investments can be minimal. However, such investment is vital if businesses are to stay on track to meet goals for a Net Zero transition. In *Transitioning Industrial Clusters towards Net Zero*, the WEF estimated that $100 trillion in global expenditure is required by 2050, with $32 trillion needing to be invested by 2030, in order to transition to Net Zero.

The magnitude of the shift is undeniably huge and, while it's encouraging to see more businesses put targets in place, all the evidence suggests that the pace of change is too slow. This was reinforced by data collected from Criticaleye's CEO Retreat earlier this year, where over half (55 percent) of respondents felt that their organisation wasn't moving fast enough to achieve its targets for Net Zero.

Governments have the potential to provide the regulatory framework necessary to support businesses to help them move faster. >

However, there continues to be much debate about whether enough is being done. "Governments across the world haven't stepped up to the mark, especially in comparison to many businesses," says **Lorcan**.

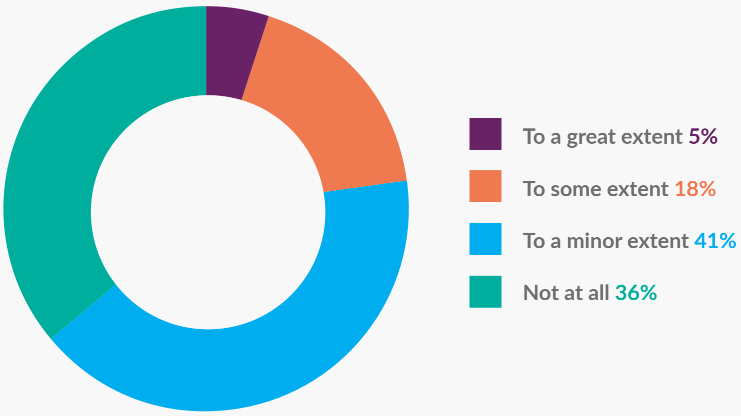
Catriona Schmolke, a Non-executive Director at Scottish Water and a Board Mentor at Criticaleye, says, "from my perspective, governments remain in the backseat on the implementation of sustainable initiatives. There remains inconsistency in the regulations surrounding how and what a company reports on, with multiple reporting vehicles being used to create bespoke combinations to satisfy the pressures that may be felt from a business' multiple stakeholders."

> *"From my perspective, governments remain in the backseat on the implementation of sustainable initiatives"*
>
> Catriona Schmolke

She outlines how the Taskforce on Climate-related Financial Disclosures (TCFD) commitments are "an example of holding businesses to account and do cover a significant tranche of the elements a responsible business should be looking to measure and report". However, she adds that TCFD reporting is mandatory for some companies but not all, which illustrates some of the shortcomings in the system.

Lorcan emphasises the importance of collaboration. "We need the public and private sector pulling in the same direction," he says. "It is essential that businesses and governments work closely together over sustainability – perhaps more so than in any other area."

Do you think your organisation is guilty of greenwashing?



Source: Criticaleye Sustainability Forum 2023

Meaning It

While governments and regulators certainly have a role to play in accelerating the transition, the responsibility does fall squarely on the Boards of companies to demonstrate there is real integrity behind their public statements. Research by the European Commission in 2021 found that 42 percent of corporate climate claims were exaggerated, false or deceptive, with 59 percent of the claims surveyed not even providing accessible supporting evidence. Moreover, in data from Criticalaye's 2023 Sustainability Forum, 64 percent said their organisation was guilty of some level of greenwashing.

Lorcan says, "companies need to demonstrate that their commitments to sustainability are genuine, making sure data and reporting are correct – including acknowledging where a business has fallen behind their targets."

There is a sense that progress, particularly around governance and transparency, is steadily being made. **Mohan Sodhi**, Professor of Supply Chain Management at Bayes Business School, comments, "There is definitely less greenwashing than there used to be, for the simple reason that there is no incentive to greenwash environmental results. By reducing C02 emissions and meeting other environmental-focused sustainability goals, your operation is becoming more efficient and saving money. I think any company greenwashing now is stupid; in the long run, it doesn't make sense." >

Strategy and Execution

Strong leadership is vital when there are myriad short-term distractions, which is why the Board has a massive obligation to drive sustainability in an organisation. “Some targets can be much more difficult to gain traction at a corporate level,” says **Dominic**. “It can be a real challenge to make these more abstract strategies quantifiable in a way people can latch onto.”

Lorcan adds: “The role of the CEO is to ensure that the vision and strategy of an organisation is clear. It is only once everyone within the organisation believes the ... agenda is a genuine and clear priority for the business that things can start to happen.”

As ever, this will come down to leadership from the executive and non-executive directors. It may require some tough decisions and trade-offs, but the topicality and urgency of the sustainability agenda only serves to reinforce that Boards do not want to be left with alienated customers, employees, shareholders and a business comprised of stranded assets.

Catriona summarises: “The Board... [needs] to set the policy framework to embed in governance on how they will deliver their commitments; this is very specific to every business. Once embedded in governance, there is then less risk of reprioritisation ...

“Any company that has not embraced sustainability as an integral way of doing business will fall behind their peers and lose market share. Frankly, it’s a no brainer.”

> *“We need the public and private sector pulling in the same direction”*
>
> Lorcan O’Connor

The link between sustainability and access to capital through ESG investing and ‘green finance’ has certainly focused the minds of senior leaders in a way that perhaps wasn’t the case in previous years. **Mohan** says: “The group I see driving the sustainability agenda are the shareholders. They have a vested interest in the organisation surviving and succeeding in the longer term, and sustainability efforts are important in achieving this aim. Other stakeholders that influence the agenda are NGOs and the press – especially as representatives of the people”.

A report by the WEF estimates that by 2030 nature-positive solutions will create $10.1 trillion in business opportunities and generate 395 million jobs. However, it’s evident that governments, consumers and shareholders all need to make choices if this green, post-industrial revolution is to become a reality. For Boards, the spotlight is very much on Chairs and CEOs to show the resolve and resilience need to hold true to targets and, in many cases, drive significant business model transformation.

However, the sad truth is that the goals set out in the Paris Agreement back in 2015 feel unachievable if change keeps happening at the current pace.

Those fires, floods and storms tell their own story.

The clock is ticking. ■

Criticaleye is holding its annual CEO Sustainability Retreat on Thursday 12-13 October. Please click here for more information or to register interest in attending:

Featuring Commentary From:

Lorcan O’Connor
Group CEO
Córas Iompair Éireann

Dominic Emery
Former Chief of Staff to the CEO, bp

Catriona Schmolke
NED
Scottish Water

Mohan Sodhi
Professor of Supply Chain Management, Bayes Business School

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