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Executive Summary

Decarbonisation Strategy and Investment Tracker

A focus on the evolution of corporate decarbonisation strategy and investments.

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Executive Summary

With sustainability increasingly rising up corporate agendas, decision-makers are navigating two primary disruptions; the pressure to decarbonise operations, and the regulatory need to report. This excerpt from Reuters Events inaugural IMPACT Report sheds a light on the key prioritisation and investment trends and forecasts for corporate decarbonisation.

Businesses are preparing for more comprehensive sustainability reporting requirements by investing in a range of different tools and technologies, however the direction of investments looks set to change in the next three years in tandem with growing demands. Our research indicates that while data analysis solutions, emissions accounting solutions and process improvement technologies are the top three destinations for investment today, this will change by 2026 with ESG data management platforms, sustainability risk management solutions and emissions management solutions growing in popularity.

The introduction of more complex reporting requirements, alongside a growing acknowledgement of the business risk posed by ESG compliance, is triggering investment in a broader range of tools. With Scope 3 reporting requirements – as mandated within Europe's Corporate Sustainability Reporting Directive (CSRD) – set to become the de facto standard for ESG reporting over the coming years, investment is also expected to grow. A large majority of respondents to our Reuters Events Sustainability Strategy and Implementation Survey (2023) – nearly 80% - expect sustainability-related investments to increase. However, our research also indicates that larger companies are more likely to expect an increase in sustainability investment than SMEs.

Our research indicates more of a link between company size – both in terms of revenue and headcount – organisational structure (private versus publicly listed) and the level of greenhouse gas emissions and current investment levels than their respective industries. Companies with higher greenhouse gas (GHG) emissions, publicly listed organisations and large businesses are more likely to spend greater sums on sustainability, irrespective of the industry such companies operate within. These are therefore important factors for benchmarking sustainability strategies against peer groups.

Despite a perception that Europe still remains ahead of North America in sustainability, our research identified little divergence between organisations operating in the two regions, with investment profiles largely similar. Some more marginal differences, such as that respondents operating in Europe are more likely to invest in ESG data management platforms and sustainability risk management solutions than those operating in North America, could be reflective of stricter reporting demands currently in place. That respondents operating in North America indicated a greater swing towards investing in emissions management solutions in the short-term than our global average could, however, highlight that taking action is a universal ambition.

Irrespective of regional differences, energy and decarbonisation is the highest sustainability priority area for organisations today. More than 80% of respondents to the Reuters Events Sustainability Strategy and Implementation Survey 2023 selected energy and decarbonisation among their top three sustainability strategies, almost half (48%) citing it as their leading priority currently. This is being tackled in numerous ways, such as increasing operational efficiencies and investing in renewable energies, with success largely being measured in the reduction of Scope 1, 2 and 3 emissions, albeit to differing levels.

1 Assessing the sustainability investment profile

ACTIONABLE INSIGHTS

- Spending on sustainability strategy is largely expected to grow over the next three years – nearly 80% of respondents to our survey stating as such – however there is a broad level of difference between how much growth participants expect. Companies with revenues in excess of $250 million are more likely to expect an increase in investment spending in sustainability strategies than companies with smaller revenues.

- Survey responses found a more substantial link between the level of GHG emissions and the level of sustainability investments than industry type – presenting other metrics for benchmarking – however professional and business services firms were more likely to have fewer employees dedicated to sustainability strategy than other sectors.

- When benchmarking your sustainability strategy against your peers, consider comparisons against companies of the same size – both in terms of revenue and headcount – and organisational structure. Respondents from publicly traded companies in our survey were more likely to spend in excess of $5 million each year on sustainability than other types of organisations.

The level of engagement with, and resource dedicated to, sustainability strategy and implementation is impacted by several factors, not least a company's size in terms of its headcount, its revenue and its organisational structure.

Generally, larger organisations – those with 5,000 overall employees or more – are more likely to have in excess of 100 employees assigned to their sustainability strategy development and implementation, including any reporting function the business maintains, than organisations of other sizes.

Small companies, or those with annual revenues of up to $50 million, are more likely to have 0 – 5 employees engaged in their sustainability function, with 59% of respondents at organisations within that revenue bracket stating as such.

Company function is also seen to have an impact on the number of employees dedicated to sustainability. Professional and business services companies are more likely to have 0 – 5 employees engaging in sustainability than other sectors, with 53% of respondents belonging to such organisations selecting that option.

58% of respondents at businesses with more than **5,000** employees said they had at least 21 members of staff dedicated to sustainability

Our survey respondents also indicated that the larger a company's revenue, the more they are likely to dedicate towards sustainability strategy spending. Respondents at companies with revenues of up to $50 million were most likely to indicate annual spending of $500,000 at most, while those at organisations where revenue exceeded $1 billion were more likely to spend in excess of $5 million each year.

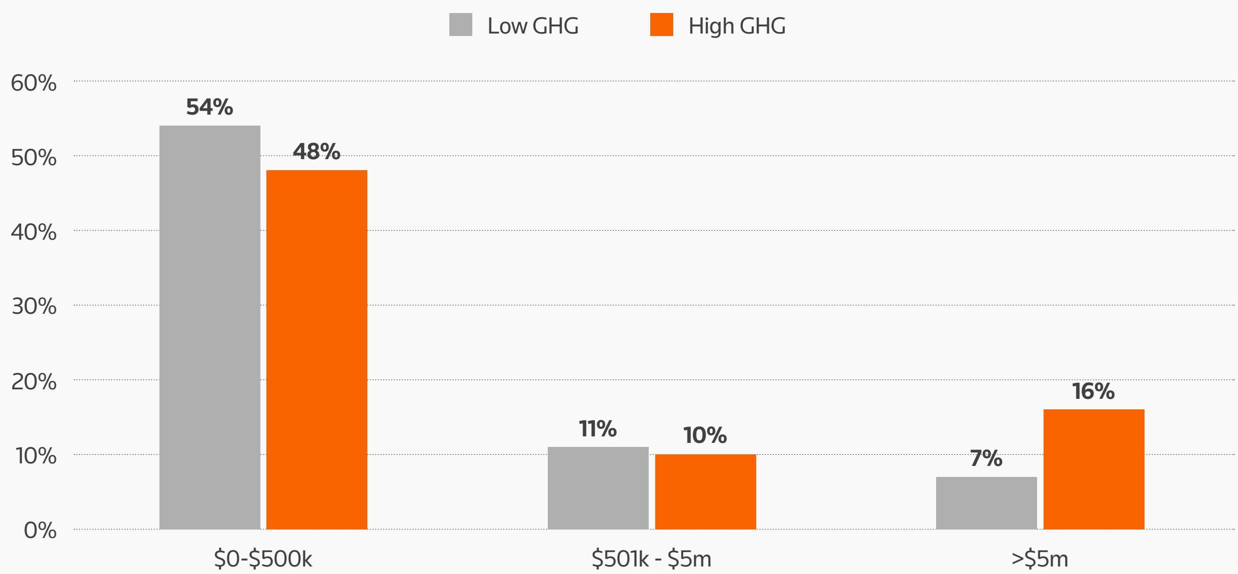
Organisational structure also has an impact on spending, with publicly traded companies more likely to spend more than $5 million each year than other structures, potentially pointing to the impact of shareholder pressure on sustainability priorities.

While our survey did not find much inherent difference in sustainability spending per sector, when segmenting industries into two groups – low GHG emissions and high GHG emissions – those with higher emissions are more likely to spend more than $5 million than those recording lower emissions presently. With many reporting requirements mandating for a reduction in direct emissions under Scopes 1 and 2, there is a clear business risk driver for companies with high emissions to be driving further and faster, and this is reflected in our findings.

Figure 1

A larger share of businesses with high greenhouse gas emissions spend more than $5 million on sustainability strategies each year

Comparison of annual sustainability strategy spend by businesses with high and low greenhouse gas (GHG) emissions



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Benchmarking against your peers – taking into consideration factors including company size, organisational structure, revenue and level of emissions – can therefore indicate the level of investment necessary to maintain pace on sustainability targets.

But our survey has also indicated that investments in sustainability are largely expected to grow over the course of the next three years. More than three-quarters (78%) of respondents said they expect sustainability investments to grow by 2026, with just 2% expecting investments to fall – outliers in the field. Publicly traded companies are again more likely to expect investments to grow than other organisational structures, while larger companies – specifically those with annual revenues greater than $250 million and/or headcounts larger than 250 – are more likely than smaller companies to forecast increases in investment.

Of those expecting investments to increase, more than one-quarter (26%) expect investments to grow by between 6 – 10% over the next three years, with a further 19% expecting sustainability investments to grow by between 11 – 20%.

2
How are businesses strategising for decarbonisation?

ACTIONABLE INSIGHTS

- Energy and decarbonisation is the highest-priority area of sustainability strategy among our respondents, picked by a large majority (84%). Those strategising for energy and decarbonisation are doing so through a mix of initiatives, including operational efficiency improvements and renewable energy investments. Businesses with high GHG emissions are also exploring on-site renewable energy investments, directly targeting Scope 2 emissions reductions. A greater share of respondents operating in Europe say they are both investing in renewable energy and consider increased share of electricity consumption from renewable sources than those operating in North America.

- Nearly one-third (31%) of respondents operating in North America stated a reduction in deforestation as a key strategy for addressing nature and biodiversity, making it the second-most popular strategy in that region. However, this strategy was selected by a smaller share of our respondents in Europe (25%), with five other strategies identified as being more common. Organisations operating in Europe could therefore be read as having a broader set of strategies in this area.

- When assessing the key drivers for formulating sustainability strategies today, three leading factors emerge; brand purpose and values, opportunities for growth and regulatory compliance. While other drivers were selected, these were the three most commonly cited by our respondents. This indicates that they could be contributing factors for any sustainability strategy decision-making process.

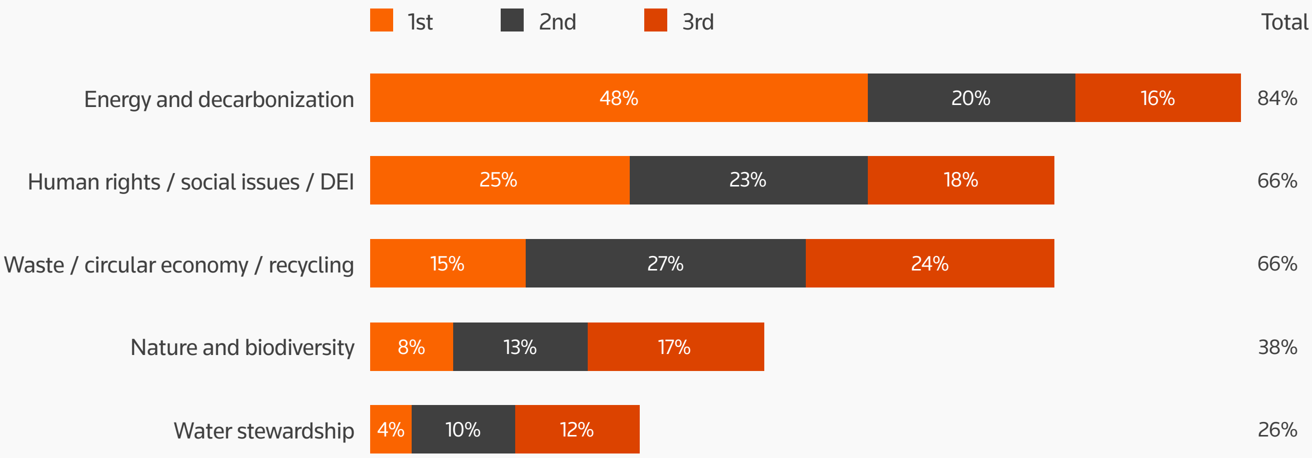
Energy and decarbonisation ranked as the highest-priority area of sustainability for respondents to our survey, with 84% of respondents citing it as among their top three priorities. Almost half (48%) of respondents stated it as their leading priority, indicating just how imperative the business community regards decarbonisation today.

With much focus currently on reducing Scope 1 and Scope 2 emissions – the so-called low hanging fruit of decarbonisation – investments to reduce emissions from energy consumption are likely to remain popular until such fruit has been picked, so to speak.

Figure 7

Energy and decarbonization is a leading priority for the majority of respondents to our survey

Leading sustainability priorities for organizations overall



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Renewables leading the way in decarbonisation

- Improving operational efficiencies is the most popular strategy among respondents to decarbonise their business
- Of those looking to invest in renewable energy, more than 40% of respondents indicated they were anticipating doing so through installing on-site renewable generation

Across our respondents base, increasing operational efficiency of existing processes and investing in renewable energy were universally popular strategies for decarbonisation. More than half (51%) of respondents to have prioritised energy and decarbonisation stated that they were exploring efficiency gains as a means of achieving that, while 44% of respondents said they were investing in renewable energy.

Increasing operational efficiencies was most popular among technology, media and telecommunication (TMT) businesses surveyed, with more than two-thirds (67%) of respondents from TMT organisations citing it as a key strategy for them, followed by professional and business services firms (57%).

Just less than two-thirds (65%) of respondents from the energy, utilities, mining and chemicals industries meanwhile said investing in renewable energies was among their top three strategies for addressing energy and decarbonisation, a significantly higher share than that seen in other industries.

More specifically, renewables investments are being led by on-site power generation facilities, such as solar PV, with an average of 41% of respondents indicating that their organisations were investing in such facilities today. This is especially true of respondents from businesses with high GHG emissions – 47% of such respondents said their organisation was investing in on-site power generation, compared to 35% of those from businesses with low GHG emissions.

Respondents from finance and insurance businesses were more likely to indicate that they had prioritised investments in companies transitioning away from fossil fuels and divesting in all fossil fuel-related companies than other industries surveyed.

Respondents from the finance and insurance industries also responded to the top three sustainability strategies with respect to energy and decarbonisation. Among those respondents, 33% said they were investing in companies transitioning away from fossil fuels, significantly higher than other business groups, of which just 8% indicated the same. Similarly, 18% of respondents from the finance and insurance industries said they are divesting from all fossil fuel-related companies, compared to just 4% of those outside of the sector.

For those prioritising energy and decarbonisation, 42% of our respondents operating in Europe said that they were looking to invest in renewable energy, compared to 37% of respondents operating in North America. This is also borne out in the metrics for success in energy and decarbonisation, with almost half (49%) of respondents operating in Europe looking to increase consumption from renewable sources of electricity, compared to 43% of respondents operating in North America. Around 41% of respondents operating in Europe are also looking to increase investments in clean energy compared to 35% in North America. A larger share of respondents from Europe (62%) also consider reductions in Scope 2 emissions as a measure of success in this field compared to those operating in North America (57%).

Figure 8

Organizations operating in Europe are more likely to invest in renewable energy –for now

The share (%) of survey respondents identifying their top sustainability strategies addressing energy and decarbonization, split by region

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Recycling is king for tackling waste and the circular economy

- Recycling waste from existing operations is the most popular strategy for tackling waste and the circular economy, and is particularly popular within the energy, utilities, mining and chemicals industries
- Extending product life cycles was identified as a priority by a greater share of respondents from organisations operating in Europe than those in North America

More than half (56%) of our respondents said that recycling waste from existing operations was among their top three strategies for addressing waste and the circular economy. Our research also indicates a higher prevalence of this within the energy, utilities, mining and chemicals industries, as well as the not-for-profit, education and public sector, where 67% and 62% of respondents respectively cited that particular strategy.

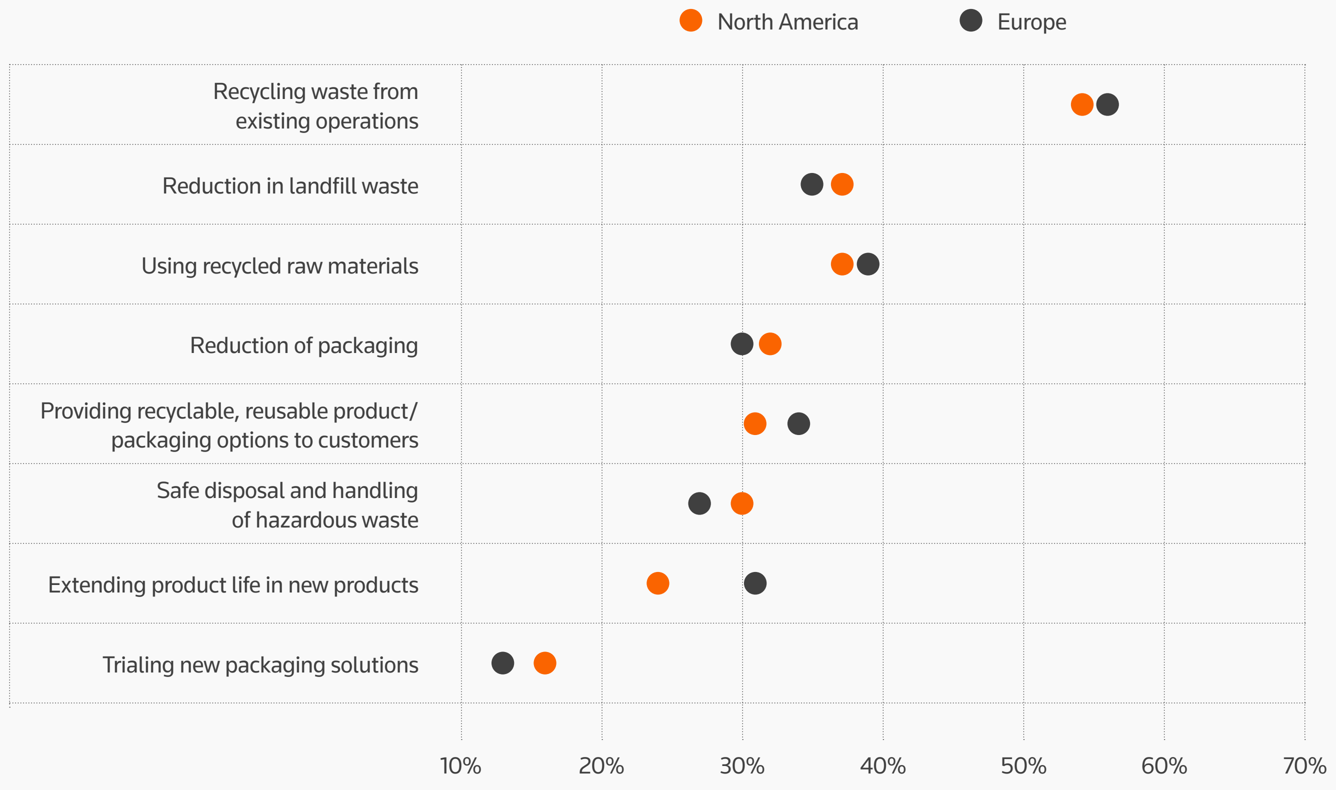
Energy, utilities, mining and chemicals businesses are also found to be more likely to use recycled raw materials, with 55% of such organisations selecting that strategy within our survey compared to an average of 41%.

A larger share of respondents operating in Europe selected extending the product life of new products as a priority (31%) than respondents operating in North America (24%). This is perhaps also reflected in the share of respondents operating in Europe who identified the share of recycled materials in products (39%) and packaging (31%) as metrics for success in this field, compared to those operating in North America (32% for products and 25% for packaging).

Figure 10

Recycling leads the way as participants in Europe more like to seek product lifecycle improvements

The share (%) of survey respondents to have selected leading sustainability strategies to target waste and the circular economy, split by region



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Large share of businesses looking to responsible sourcing to address nature and biodiversity

- More than 40% of respondents are addressing nature and biodiversity concerns by seeking more responsible sources of raw materials or ingredients, making it the leading strategy in this area
- Organisations operating in North America are more likely than their European counterparts to be addressing deforestation in their supply chain

Of our respondents to have prioritised nature and biodiversity, 43% said they are strategising for that objective by sourcing raw materials or ingredients more responsibly. Nearly half (49%) of respondents from the professional or business services community said their organisation was doing so.

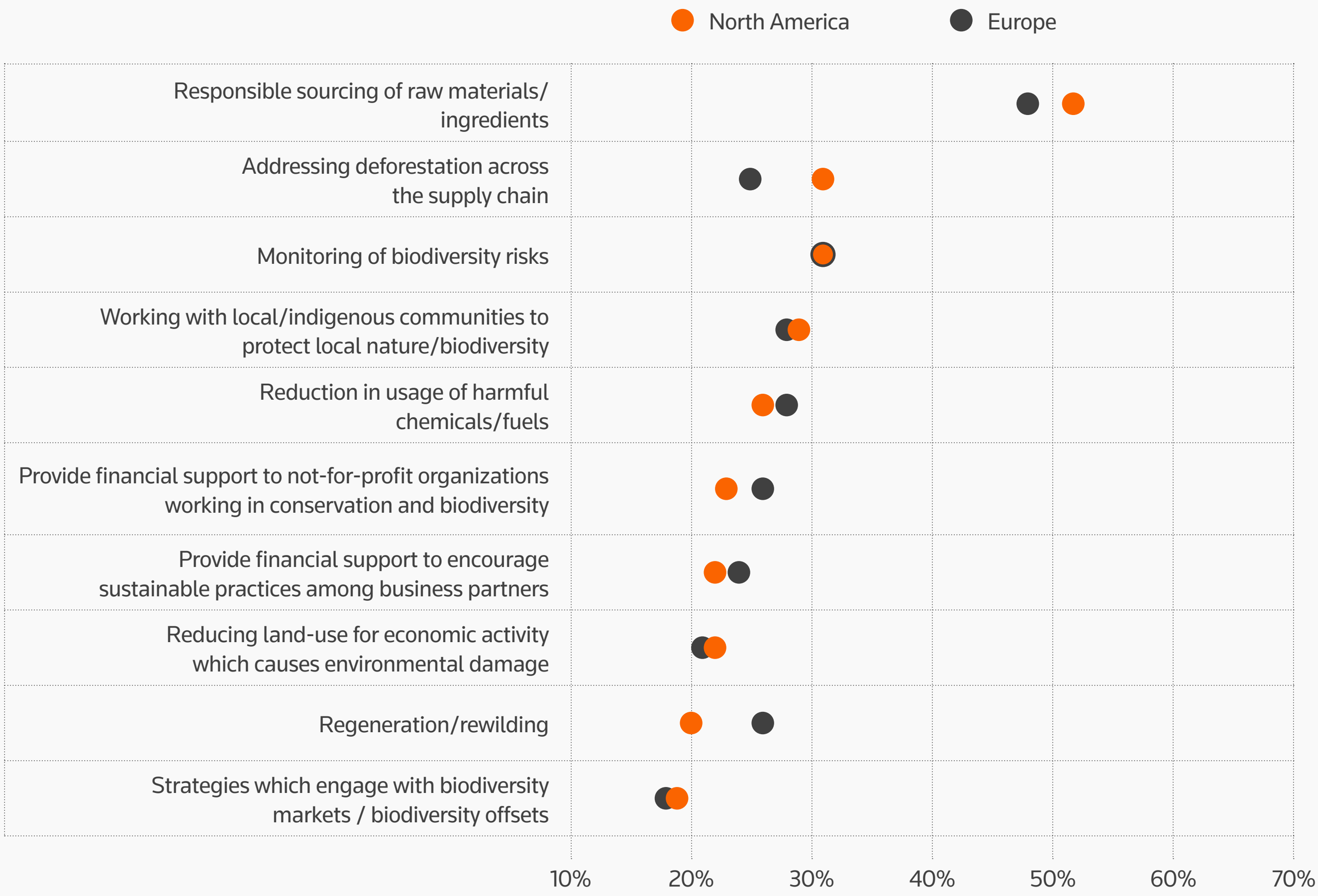
The next most popular strategy for addressing ambitions related to nature and biodiversity was collaborating with local or indigenous communities, an aim selected by 35% of respondents. Our survey results do, however, indicate a higher prevalence of this option within the energy, utilities, mining and chemicals, and the not-for-profit, education and public sector industry groupings – working with indigenous or local communities was selected by 47% and 46% of respondents from these groupings respectively.

Meanwhile, nearly one-third (31%) of respondents cited that their organisations are looking to reduce the use of harmful chemicals or fuels to protect nature. There are indications within our findings that manufacturing, construction and automotive companies could be more likely to select this particular strategy than other groupings.

Figure 11

Organizations operating in North America are more likely than their European counterparts to address deforestation

The share (%) of survey respondents to have identified their leading strategies used to target nature and biodiversity, split by region



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Of those targeting improvements in nature and biodiversity, nearly one-third (31%) of respondents operating in North America stated that they were looking to address deforestation across the supply chain, the joint-second most popular strategy from respondents operating in North America. Addressing deforestation was selected by 25% of respondents operating in Europe, with monitoring biodiversity risks (31%), reducing usage of harmful chemicals (28%), working with local or indigenous communities (28%), regeneration or rewilding (26%), and providing financial support for NGOs working in conservation and biodiversity (26%) all more popular strategies within our cohort of respondents operating in Europe.

While similar shares of respondents hold a reduction in acres of reforestation as a metric for success in nature and biodiversity, a larger share of respondents operating in North America cited a reduction in land-use for high-biodiversity-risk sites as a key metric (28%) than those in Europe (22%).

Action stations: Keeping pace with your peers

The role of, and demands upon, sustainability practitioners and decision-makers continues to evolve at speed. Our research has outlined that while sustainability budgets are set to increase over the next three years, businesses are setting priorities and investing in a broader suite of tools and technologies to help meet growing targets and compliance requirements.

Energy and decarbonisation has been identified as among the top-three priorities by a sizeable majority – some 84% - of respondents to our survey. Businesses are strategiing for that priority in numerous ways, however the most popular strategies include optimising operations in pursuit of efficiencies and investing in renewable energies. With a majority of businesses measuring success in energy and decarbonisation through demonstrable reductions in Scope 1 and Scope 2 emissions lends further weight to the argument that making real, tangible progress is critical for sustainability practitioners.

Business reporting requirements mandated within the likes of Europe's CSRD and the U.S. SEC's requirements state that progress against targets must be reported. With Scope 1 and 2 emissions mostly within an organisation's own control, direct actions – such as through decarbonising its power supply and measuring the impact of that – make logical sense of the conclusions highlighted by our research.

Looking forward, there is evidently less certainty. While nearly half of respondents to our survey identified energy and decarbonisation as their leading priority, selections for the second and third priorities were much more mixed – waste, circular economy and recycling being the most popular second priority, selected by 28% of respondents.

The technologies favored for investment in 2026 suggest that different challenges are looming on the horizon, especially requirements for Scope 3 emissions reporting, which the CSRD requires of listed SMEs by 2026. These will require different tools and capabilities and will almost certainly require more investment – 74% of respondents surveyed said investment will grow over the next three years, 26% of whom expect an increase of 6 – 10%.

There is therefore little doubt that the business community is treating sustainability with growing importance and urgency. Most organisations would also appear to have a strong understanding of their immediate plan. The uncertainties, our research indicates, lie in how to tackle the disruptions on the horizon for the years ahead.

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The insights featured in this article are an abridged, decarbonisation focused selection from **Reuters Insight Report** the full report featuring more in-depth analysis around current and planned investment, as well as information on methodology, can be downloaded here.

This targeted report focusing on **Decarbonisation**, **Biodiversity** and **Circularity** as been compiled as it reflects key topics being discussed on the Net Zero Stage at Reuters Event's upcoming **Sustainability Europe 2024**. To find out more about Sustainability Europe you can download the brochure **here**.