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SUSTAINABLE BUSINESS

Five Leading Trends

Shaping Business ESG Progress

Introduction

The international business community faces significant change and disruption as it's tasked to deliver on numerous sustainability targets and initiatives.

Not only is tangible progress being made, but clear pathways are emerging to sustained action on environmental and social good.

Those pathways are not without their challenges, however, and discussions with senior executives across multiple industries highlighted five emerging themes presenting challenges to companies aiming to improve their ESG credentials.

Key challenges faced by businesses

How to address behavior and attitudes to reduce resistance to sustainability progress.

Delivering consistency and comparability while advancing climate science necessitates changing of reporting frameworks.

Collecting, collating and managing these new streams of data.

Uncertainties surrounding resourcing as numerous companies aim to transition at the same time.

Identified solutions to the challenges ahead

Science alignment

Transparency and communication

Resource upskilling through hiring and training

Building reporting capabilities in advance of legislation to decrease time pressures

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1. Evolving, reporting and lack of ESG standards

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1

MEASURE

You cannot manage what you do not measure. Once you're measuring you can start to see where savings can be made and track progress.

2

REPORT

Reporting helps companies to stay accountable to targets and gives stakeholders greater security in understanding what stage the business is at.

3

ADOPT A FRAMEWORK

Familiarizing yourself and your organization with reporting will help in the long run. The ISSB or TCFD are advantageous as they track closely with new legislation, however which framework you choose may differ depending on where your organization conducts business and which aspects of ESG are most material to you.

Sustainability reporting frameworks

The exponential increase in knowledge and technology in this area has led to huge growth in both the ability to understand and accurately measure ESG impacts.

Frameworks have evolved over time as a result, becoming more sophisticated and comprehensive.

Some argue that this changing of standards leads to greater costs and confusion with companies unable to accurately measure and report to the varying standards.

> Sustainability reporting frameworks have been around since the GRI was introduced in 1997
>
> (*Freeworld finance*)

Sustainability reporting frameworks

Evolving reporting standards in ESG are viewed by some as a deterrent to engaging in reporting practices.

But the importance of reporting is ever-growing and a failure to engage could lead to costly repercussions in the future.

1/3

Respondents stated they are not currently reporting their greenhouse gas (GHG) emissions

18%

With a further 18% unsure what (if any) GHG reporting their company undertakes

This cohort was taken from organizations willing to engage with an ESG focused survey, therefore we believe that the real numbers are likely to be even higher.

SOURCE: Reuters Insight dashboard How companies approach sustainability reporting

Reporting structures – climate disclosures

Have companies adopted the TCFD framework for climate disclosures?

On greenhouse emissions, my organization reports…

Landscape changes and processes streamlining

Standardizing across multiple jurisdictions and industries has historically been difficult and has led to fragmentation across the landscape as organizations meet some needs but not others.

But the landscape is changing. For example, the merger of the SASB, IIRC and CDSB to produce the ISSB framework:

• Incorporating key features from across the board and builds on existing, well-respected frameworks such as the TCFD and GRI.	• Governments are starting to use frameworks to build their regulations, thereby improving their comparability with the performances of other nations.

Regulations coming into effect

CSRD

EU regulations set to come in from 2024, which aligns with the TCFD and extends the reach of the NFRD, will apply to more companies and bring with it the possibility for auditing.

ISSB

Is another new framework that builds on the TCFD and **aims to create better alignment between companies' sustainability and finance departments**, the action of which should help companies to streamline their reporting into one comprehensive output.

IFRS

Present the ISSB as **providing a global standard** *"that can be mandated and combined with jurisdiction-specific requirements or requirements aimed at meeting the information needs of broader stakeholder groups beyond investors."*

Regulations coming into effect

Despite aligning with EU mandated regulations, **only 30%** of respondents from Europe **are currently using the TCFD framework for climate disclosures.**

Companies that do not start reporting may find they have a bottleneck trying to push it all though before mandated regulations come in.

The costs of disruption in implementing these changes over a short period of time and without the necessary skills and knowledge are likely to cause many issues within your organization.

Hiring **the right staff** and encouraging **the right educational growth** among employees **will be essential to ensuring reporting goes smoothly**.

30%

Of respondents from Europe surveyed by Reuters Insights are currently using the TCFD framework for climate disclosures.

15%

Admitted to never reporting ESG externally.

8%

Do not report internally.

SOURCE: Reuters Insight dashboard [How companies approach sustainability reporting]

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2. Setting net-zero targets

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1 **SET**

Net-zero targets to keep your company accountable for its emissions.

2 **ENSURE**

Any targets are science aligned and verified to provide a clearer path through decarbonization and avoid accusations of greenwashing.

The Landmark Paris agreement

Signed at COP21, The landmark Paris Agreement, holds commitments from more than 70 countries including the U.S., China and those in the EU to strive **to limit global temperature increases to 1.5 degrees Celsius**, a target which would **require emissions to fall by around 45% by 2030.**

This requires an enormous transition across all industries, which brings with it many challenges.

62%

Of those surveyed by Reuters Insight stated that they **had net-zero targets.**

1/3

However, over a third of those respondents said their **targets were not science aligned.**

SOURCE: Reuters Insight dashboard [How companies are approaching decarbonization]

Importance of science aligned targets

Speaking at Reuters Events Supply Chain Transformation series, industry leaders stressed the importance of science aligned targets.

"In the absence of the really granular data […] investing in a company that aligns to Science Based Targets is the next best thing," said Ulrike Decoene, Group Chief Communication, Brand and Sustainability Officer at AXA. Furthermore, ensuring targets are science aligned **helps build standardization across sectors.**

"In the absence of the really granular data […] investing in a company that aligns to Science Based Targets is the next best thing,"

- Ulrike Decoene, Group Chief Communication, Brand and Sustainability Officer AXA.

As well as ensuring claims can stand up to tough scrutiny, **helping protect organizations from greenwashing**.

Sak Nayagam, Senior Director at consultancy 3Degrees, argued that aligning to third party, science-backed goals **"means no one is marking their own homework".**

Steps to decarbonizing

The first step for companies wishing to decarbonize is to measure their current emissions. Establishing a baseline allows you to identify which areas are having the greatest impact and establish how to efficiently manage resources to address the issue.

Senior executives in off-the-record discussions have highlighted that both putting commitments into action and scaling targets within a growing business presents tough challenges. The rapid advancement of green technologies offers a viable solution to both concerns. For example, **transitioning to clean energy is an effective way for many** organizations to minimize one emission source.

Reuters Insight found that:

61%
of businesses surveyed had invested in clean energy.

41% perceived this to have the best ROI of the technologies they had invested in

44% reported that they had plans to invest in clean energy in the next 24 months.

SOURCE: Reuters Insight dashboard [How companies approach sustainability reporting]

Mandatory reporting and where to invest?

- Technologies that improve efficiency and decrease resource demand **can offer long-term financial benefits** alongside their reduction in environmental impact.

- **Carbon offsetting programs on the other hand should be used sparingly**. In the majority of instances carbon offsetting should not be viewed as a long-term solution but **can be used temporarily** while larger scale transitions take place.

- If you do use carbon offsetting, **ensure these programs are verified**, and applied only for emissions that can't currently be tackled through available technologies or solutions.

- As mandatory reporting broadens its reach, large companies are being pushed to consider not only their direct emissions but also Scope 3 emissions. **But while Scope 3 is being labelled as the 'next frontier', just 21% of Reuters Insight survey respondents said they were currently disclosing Scope 3 emissions.**

- **Scope 3 presents big hurdles** that companies must work together with their suppliers to overcome. **Aligning metrics and frameworks is advisable to reduce administrative burden** and to allow the sharing of knowledge and resources to speed up the transition.

3. Behavior change

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Increased transparency and **communication can help to align expectations** both internally and externally and improve engagement with sustainability strategies.

Challenges to sustainability progress from behavior or attitude can occur both internally and externally. Internal challenges may include educating the management and board on the importance and opportunities around sustainability.

External challenges may stem from investor attitudes, customers behaviors or engaging key suppliers to adopt new practices.

Addressing external attitude

- Through **issuing regular, comprehensive progress reports using standardized, science aligned targets** and measurements, businesses can **communicate clearly with customers and investors** about the true impacts of the business and its transition to a new sustainable model.

- In a newly published study by Reuters Insight, it was found that companies that regularly reported sustainable data externally (once a year or more) were significantly more likely to say that they felt **their frequency of reporting met the needs and expectations of stakeholders (Reuters insight).**

- Contrary to the current status quo, **governments and businesses should look to guide consumer behavior** by making **the sustainable choice widely available and accessible.**

- **Consumer behavior is confined by the options available to them** both in convenience and price point. To increase consumer uptake of **sustainable products they need to be the norm, not the exception.**

Addressing internal attitude

- Having business leaders on board is key to ensuring effective sustainable progress.
- Education is key to help leaders understand how sustainable action can benefit their business efficiency and financial performance.
- The introduction of sustainability criteria within bonus or compensation systems can help to maintain engagement and improve sustainability outcomes.
- Training staff on sustainability and clearly communicating the strategies you seek to implement, as well as the impacts they will have, can help improve engagement and give management the opportunity to address any concerns from employees.

24%

Of respondents stated that their company had management compensation linked to sustainability impacts.

SOURCE: Reuters Insight dashboard How companies are approaching decarbonization

4. Resourcing

Actionable insight

Look to **improve the ESG competencies of your workforce** though hiring and training before mandatory reporting is introduced to maximize transition time and minimize disruption.

Develop a comprehensive set of company values and build these into an ethos before publicizing for customers to view. Ensure that all staff recruited into the business align with those values.

Seeking additional input, both human resource and tech

- The introduction of mandatory reporting across multiple jurisdictions has **driven many organizations to allocate funding with the expressed intention to improve their ESG resource levels**, for both technology and human capital.
- As **stakeholders and consumers demand more transparency** into organizations ESG impacts companies need to hire professionals with the knowledge and expertise to ensure implemented strategies and ESG reporting stands up to tough scrutiny.
- Kate Goodall, a recruitment consultant at Private Equity Recruitment, reported to ESG clarity **that, in finance, salaries for ESG professionals have risen by 50% - 100% in 2021.**
- Across industries the introduction of mandatory **reporting is placing administrative demands** that require time and expertise.

In demand talent and upskilling the workforce

- Companies are finding that **attractive workplace social policies are of growing importance**. Flexible working policies can make organizations more accessible therefore allowing hiring from a broader channel of talent.

- **Improved DEI performance is shown to make an organization more attractive** to workers (Antrim).

- Recruiters report that **younger generations are more inclined to apply with organizations whose values and aims align with their own** (Deloitte).

- **Companies should aim to hire staff with education and/or experience in ESG before regulations come into effect. This will provide the time for any necessary changes to be implemented in increments, minimizing potential disruption.**

- It is also recommended that **companies educate and train existing staff on ESG**, increasing staff engagement through training **can improve compliance with new strategies** further reducing the disruption of change.

5. Collecting high quality data

Actionable insights

Guide the metrics you implemented by identifying the most material concerns for your organization.

Efficiently and effectively hiring employees with the necessary skillset will be essential to gathering and handling ESG data

Collating ESG data and it's challenges

You cannot manage what you do not measure, and ESG is no exception. But measurement itself poses challenges for many companies and fragmentation within the reporting landscape has fuelled further confusion.
The key challenges identified are:

Collecting and auditing in a short timeframe

Collecting accurate data rather than relying on proxy measures

Ease of data handling (compilation and comparison) and the data collection of social measures that don't lend themselves to quantitative data.

Managing data

- **Organizations need to ensure that they are properly resourced**. Hiring the right staff with relevant expertise will make the transition smoother and ensure data is being handled and interpreted accurately.

- Similarly, **effective training of staff and suppliers can allow them to analyze and report their own data accurately,** while training can also be used to **empower suppliers to use their own data to improve processes** and identify areas of concern.

- **The integration of separate data systems can improve efficiency** and ease of use while also making it easier to ensure all key metrics are being tracked.

- Additionally, **internal audits can identify anomalies** and ensure that systems are being implemented in the correct way.

- Finally, **the sooner organizations start to report the longer they will have to adjust to these new systems** before legislation comes in, **giving employees longer to learn the systems and reduce any potential disruption.**

Read more on the 5 key topics on Reuters Insight:

Evolving reporting and lack of ESG standards

- Identifying and disclosing the right data to improve your ESG reporting
- A guide to the alphabet soup of sustainability reporting
- The role of the CFO in sustainability reporting

Setting net-zero targets

- Closing the say-do gap: putting net-zero pledges into practice
- How the US Department of Defense is Embracing the Net Zero Opportunity
- Harnessing data and collaboration to move net zero pledges into action

Behavior change

- Engaging the Board and using data to inform ESG performance
- Establishing a new business model to deliver impactful change

Resourcing

- Climate Change Disclosure – Advice from the SEC
- Identifying and disclosing the right data to improve your ESG Reporting
- Empowering action: taking a strategic and transparent approach to diversity, equity & inclusion

Collecting high-quality data

- Quantifying the 'S' in ESG: ways to improve your reporting
- Navigating the Landscape – Harmonizing Sustainability Reporting Standards

Reference

Charts, tables and datapoints included in this document are formed using peer-researched data exclusive to Reuters Insight - a new business platform designed to help decision-makers define and shape their business strategies based on industry-leading data and intelligence sourced directly from the market.

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