

Sustainability Navigating the road ahead



The business of sustainability





“Sustainability can be a core driver of business success”

Sustainability – Navigating the road ahead

How are climate change, demographic shifts and the war for talent affecting my business? Is my organization prepared for a future in which these issues – and many more – become critical? Is it *sustainable*? According to ERM’s latest survey of 150 companies worldwide, executives are getting serious about answering these questions as mainstream investors, consumers and employees raise the bar as never before.

ERM’s survey explores how executives are anticipating the issues that will affect future business growth. Sustainability has moved beyond the academic-sounding 1980s definition of ‘meeting the needs of the present without compromising the ability of future generations to meet their needs,’ and become much more pointed in the minds of business leaders.

As our previous research “Bridging the Gap¹” and joint work with Yale University² have illustrated, investors are demanding better information and more accountability from companies as they make decisions, particularly around climate change. In a few short years, many expect companies to report their performance on these non-financial issues every bit as robustly as on finance.

Executives are increasingly realizing the power and importance of keeping their businesses – and their own positions – relevant as the so-called megatrends drive change in markets for capital, customers and staff alike. Many have moved beyond viewing sustainability as a niche part of a functional team and, instead, are integrating it into the heart of business decision-making.

As these ideas move from the fringes into the business mainstream the challenge for organizations is changing. How do executives integrate sustainability expertise and insight throughout their operations? And are the functional specialists they have leaned on for years holding back the organization because they lack broader business strategy and implementation skills?



We now see executives with responsibility for finance, legal, investor relations and risk all taking a greater interest

Sustainability is no longer the exclusive purview of specialist professionals...

Not long ago sustainability was the almost exclusive purview of specialist professionals. In fact, getting other parts of the business to take it seriously was a major challenge. Today, a far broader range of stakeholders want input into – and even to own – their organization’s sustainability agenda.

When we asked who takes the lead on sustainability issues – apart from the sustainability team – 68% of our survey respondents cited the executive board, 63% operations and procurement, 52% risk, 49% investor relations and 42% finance.

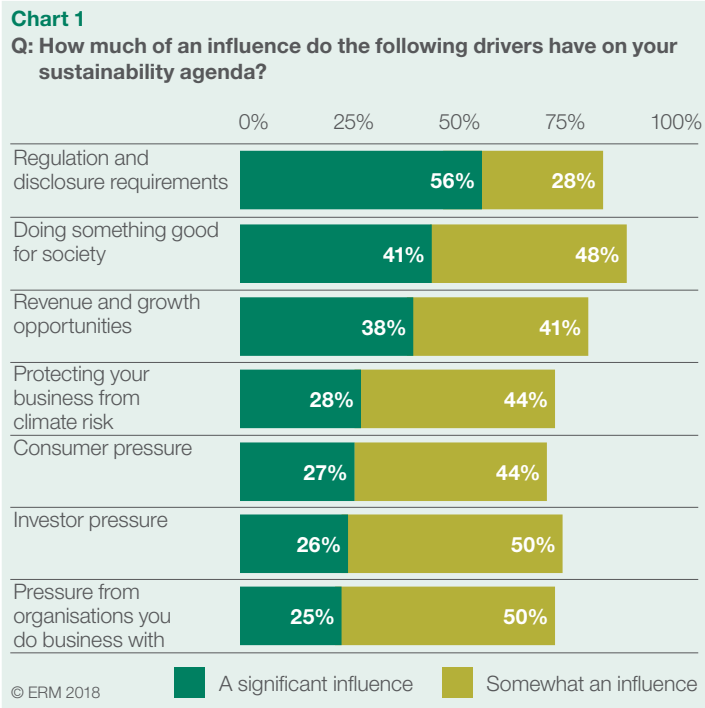
The drivers for this are myriad, including greater investor pressure, increased financial and reputational risk, consumer pressure and competition for talent. Executives with responsibility for finance, legal, investor relations and risk are all taking a much greater interest.

In our survey, 38% of respondents said that sustainability already is fully integrated into their organization’s strategy, KPIs and targets. But they also revealed that as the number of interested parties has grown, the complexity of balancing short-term commercial demands with longer term interests is also increasing.

While few companies can credibly claim to have an overall business strategy shaped by sustainability, there are striking examples emerging, including in deeply traditional sectors such as chemicals. Executive boards are starting to make investment and growth decisions that are driven by sustainability priorities.

Finance and sustainability professionals are working together to account for the total impacts on and value to the business. Practical insights, such as the ‘circular economy,’ are becoming serious contributors to R&D and the development of new product lines. And communications and marketing teams are learning how to demonstrate how sustainability thinking is protecting their business from risk and opening new market opportunities.

These integrated and business-centric tactics are moving sustainability from being the ‘NGO-inside,’ that risks dividing the organization, to something that unites it and genuinely drives growth.



The imperative to deliver sustainable business success is taking hold in all parts of the organization

The status quo looks set to change. A combined 79% of respondents believe revenue and growth opportunities have an influence on their organization's sustainability agenda, and 72% say protecting the business from climate risk is a major driver.


Most notably investor pressure is moving beyond a simple issue of non-financial compliance towards a true convergence with business strategy, with three-quarters of respondents reporting that they are facing increasing pressure from investors to formally disclose their performance.

The majority of those surveyed (56%) still see regulation and disclosure requirements as a significant influence on the sustainability agenda in their organization. While this is a testament to the progress made to become an accepted part of corporate accountability, it provides further evidence of the work to be done to shift from 'you must' to 'we must'.

Interestingly, a combined 89% said a key driver is 'doing something good for society'. That point of view might once have been interpreted as little more than nice words. Today, moves like BlackRock CEO Larry Fink's 2018 letter exhorting portfolio targets to contribute to society or risk losing the investment bank's support³ are focusing minds in the C-suite.

61%

Believe the sustainability function needs to become more commercial and financially literate



Sustainability professionals risk finding themselves marginalized precisely when ‘their’ agenda is embraced

Of course, executives and organizations are approaching sustainability from different perspectives. Some may have misguided levels of comfort because they can't see the bigger picture, or have not challenged their own dogma.

Executives are pushing their sustainability teams to work more closely with core business functions to implement actionable solutions. These include oil and gas companies driving operational investments to reduce methane leakage rates, and miners funding R&D programs to develop hydrogen cell technology to replace platinum in catalytic converters as the internal combustion engine starts to fall out of favor.

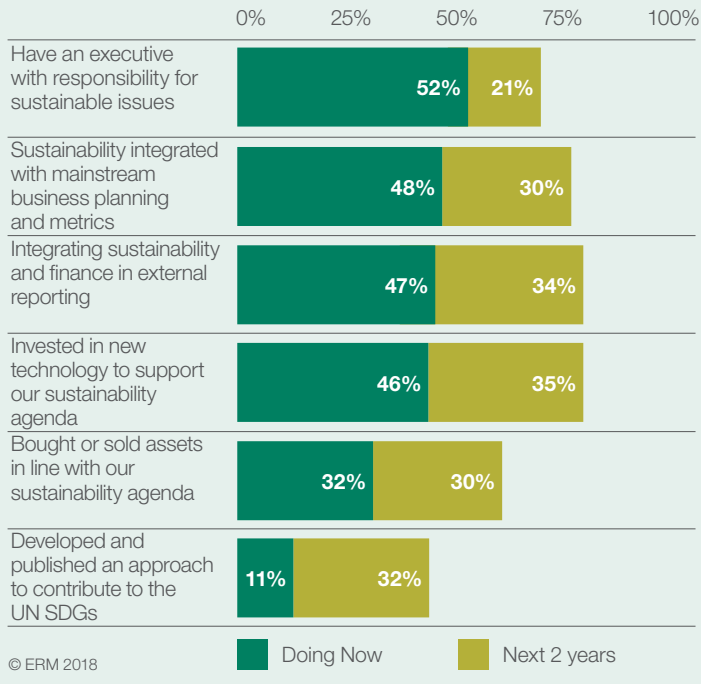
Sixty one percent (61%) of ERM's survey respondents believe the sustainability function needs to become more commercial and financially literate. Perhaps even more challenging still is that 69% say finance, procurement and other functions in the organization already have the skills and experience to deal with the challenges ahead.

Sustainability professionals risk finding themselves marginalized from key decision making precisely when ‘their’ agenda is being embraced as a core business driver. Re-framing – and likely even re-staffing – the function as a driver of growth and revenue is critical to help executives to make the right investment and planning decisions.

Executives in forward thinking companies are resisting the urge to purge their sustainability teams – a backward step – and instead are creating new patterns of collaboration to instill the deep subject insight built over years into their wider organizations. They see that it's not a case of business *or* sustainability, but both.

Chart 2

Q: Which of the following actions is your organisation taking as part of its sustainability agenda



Organizations are working to develop a culture that fully integrates sustainability into business strategy

When we look to the future, it is clear that companies are planning for sustainability to play a much larger and business imperative role. A combined 79% say they currently integrate it with mainstream planning and metrics or intend to do so over the next two years.

Many are shaping corporate cultures that embrace sustainability as a key part of mainstream business strategy. This involves creating an environment where sustainability knowledge delivers real business advantage to everyone in the organization.

Four-fifths of our respondents have plans to integrate finance and sustainability in external reporting. To prepare, 72% say they will have an executive in place with responsibility for the issues and 81.5% intend to invest in new technology to support their programs.

This confidence in their own ability raises questions about just how prepared organizations are to make this leap and whether the key players have the right skills, knowledge and experience to make it a success. Non-sustainability executives will need to learn best practices in order to be able to lead delivery of new value – if only to challenge and improve on it.

There are many paths to sustainable business success and executives can lean on emerging frameworks to shape their journey

Our research suggests that executives are on a slow-moving but accelerating maturity curve: one that begins with sustainability viewed as a reactive function focused on regulations and matures to tackle it as a business imperative for future growth and even corporate survival.

It is clear that this is not a uniform journey. Different types of executives are embracing sustainability in different ways, shaped by their roles and expectations. Legal executives continue to focus on compliance. Operational leaders are squaring up to climate-related financial risks and opportunities that cannot be siloed in one department. And strategists are hunting for markets where the organization can make money by doing good for society.

One piece of good news is that organizations don't need to start from scratch and can lean on frameworks that aim to provide a road map to deliver value and minimize impacts. Although adoption of these frameworks is far from universal, our survey respondents indicated that they are increasingly using them as ways to think about the challenge ahead.

As an example, 27% cited The Task Force on Climate Related Financial Disclosures (TCFD) as a framework that they were focusing on today – with a similar proportion planning to in the next two years – perhaps responding to the central role that mainstream investors, insurers and lenders have played in developing the guidelines. And 23% say they have a formal approach to the UN's Sustainable Development Goals (with 26% more in the next two years) – possibly lured by external estimates suggesting they offer a 12 trillion dollar opportunity for business and could create or safeguard 380 million jobs.⁴

These frameworks can help executives think through how to respond to an investment community keen to play an increasingly vocal role, alongside the next generation of smarter regulation. Together these will help set expectations of what sustainable business looks like, providing executives with the confidence to put it at the very heart of their strategies and daily operations.

We will explore these themes in a more detailed paper to follow.

1. <https://www.erm.com/globalassets/documents/presentations/2017/erm-bridging-the-gap-between-sustainability-and-finance.pdf>

2. <https://www.erm.com/en/insights/publications/investors-push-the-pace-of-climate-risk-financial-disclosures/>

3. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

4. <http://report.businesscommission.org/report>

For more information on this paper:

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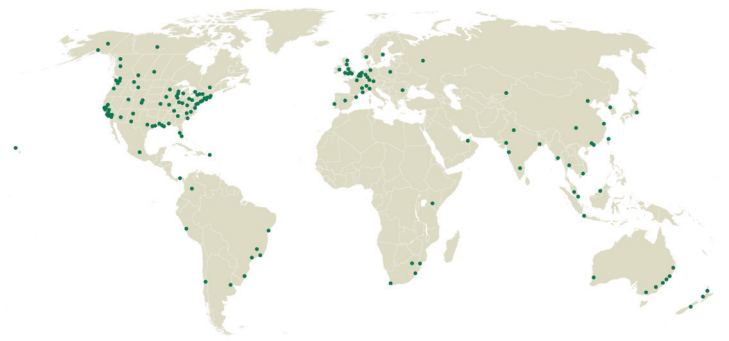
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