Executive Study

Does Sustainability & Impact Progress Compromise Growth?

Why European strategy leaders perceive sustainability as a top-line driver, and how they are transforming their culture.

A PAC Research Study

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INTRODUCTION

Have European businesses reached a tipping point in terms of how they perceive the potential impact of becoming more sustainable on their longer-term prospects?

While the majority of large and mid-sized organizations have published formal Sustainability & Impact strategies in recent years, as regulators, investors and employees demand greater transparency on progress and performance. However, there has been a strong measure of caution in many boardrooms about the impact on customer demand. A lot of sentiment surveys have suggested that younger consumers in particular are increasingly spending their money on more sustainable products and services. But has it reached a level where being more sustainable will truly drive new revenue opportunities?

PAC, Europe's leading analyst firm focused on the market for digital and sustainable transformation, recently undertook a major study based on briefings with 550 senior Sustainability & Impact strategy leaders at large European organizations. These participants represent nine major economies within Europe, and are split evenly across eight major industry sectors.

This White Paper looks at the impact that strategy leaders believe their ESG strategy will have on the wider business. Will a successful ESG strategy compromise top-line growth or will it enhance it? Do businesses believe that they need to transform their culture in order to achieve their ESG ambitions? And with the majority of businesses setting out their Net Zero targets, how confident are they that they have the insight they need to deliver them, both in the short and longer term?

This Paper is designed to help Sustainability & Impact strategy leaders benchmark their own thinking and progress against other organizations, while providing some real-life examples of the initiatives that their peers are implementing in order to accelerate their momentum.

AUTHOR

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SUSTAINABILITY BECOMES A GROWTH PLAY

There is growing evidence that European businesses are reaching a tipping point where Sustainability & Impact issues are perceived not as a cost burden, but as an opportunity for growth.

According to the results of PAC's executive study, more than one third of organizations believe that an increasing focus on sustainability will have a positive impact on their growth potential, while a further **50%** believe it supports their current growth trajectory.

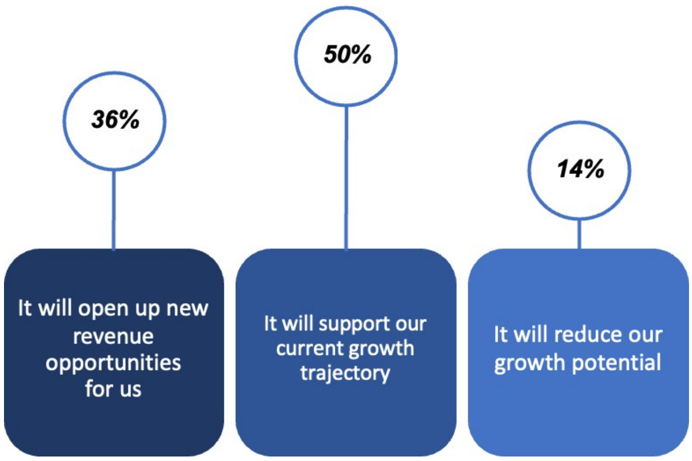
Business leaders in the banking and manufacturing sectors are most positive about the impact of their sustainability ambitions, with **46%** and **44%** respectively expecting it to open up new revenue opportunities for them. Understandably, it is companies in the transport sector that have the gloomiest outlook, with **17%** expecting more sustainable business activities to reduce their growth potential.

Demand for more sustainable products and services has soared in recent years. In Europe, this is illustrated by the shake-up in the automotive manufacturing space, with sales of greener alternative propulsion vehicles (APVs) now accounting for more than 50% of the total EU car market in 2022 according to the **European Automobile Manufacturers Association**.

Other indicators include a 22% rise in sales of plant-based foods across 13 European nations to €5.7bn in 2022, driven by a surge in growth of vegan meat alternatives. Meanwhile, the **International Energy Agency** reported a 41% surge in sales of heat pumps in Europe in 2022. **Hybrid Heating Europe** claims that the use of electric heat pumps over fossil fuel powered boilers can bring CO_2 emissions associated with heating down by 60%.

But while there are many examples of greenfield growth stories, what is more encouraging is how traditional, well-established brands are successfully pivoting towards more sustainable business models and core propositions. There are numerous examples from the world of sustainable fashion, including Sweden's **H&M**, which saw an 85% increase in revenue from its partnership with **Sellpy,** which enables customers to purchase second-hand garments, and is on course for revenue of €90m this year. **Zara**, part of Spain's Inditex group, recently launched its own resale platform, "Pre-owned," having become one of the most-listed brands on the Depop platform.

Fig 1. What impact will your Sustainability & Impact strategy have on your growth ambitions?



One of the biggest growth opportunities for banks in particular is in sustainable finance. However, the study found that its impact – covering both the financing of sustainable business activities, and those that are transitioning to a more sustainable model over time – is being felt across many industry sectors.

Sustainable finance is seen as an important or vital issue to **60%** of participants in the study, with a small tail of just 7% of organizations seeing it as not being important to their future. The picture is the same across all the regions represented within the study, with **65%** of organizations in the UK and **63%** in France viewing sustainable financing as playing an important part in their organization.

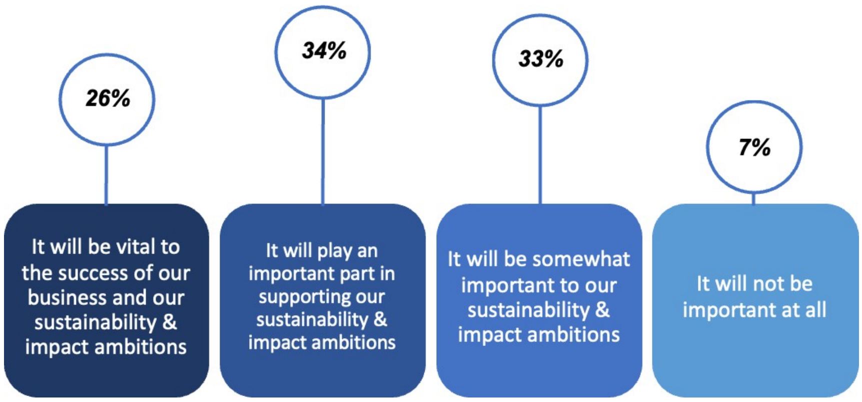
For banks of course, sustainable finance represents a direct revenue opportunity, and a quarter (**23%**) of respondents in this sector state that it will be vital to their future success, with a further 35% viewing it as an "important" factor. Europe is leading other regions in terms of the number of ESG firms, according to recent research from **ID Crypt Global.** Based on data from the first half of 2023, Europe accounted for 77% of the global total of more than 7,000 funds that were in operation during this period, with assets worth close to $2.2bn.

There are some truly innovative examples of sustainable financing initiatives playing out across the region that are aiming to impact entire value chains. Logistics giant **Henkel** recently entered into an agreement with **Deutsche Bank** which links the former's supply chain finance program to the ESG ratings of its suppliers. By improving their ESG rating, suppliers can further reduce financing costs in the supply chain. In addition to the environmental component, the programme also takes into account social aspects and good corporate governance.

More than two thirds **(64%)** of transport organizations acknowledge the importance of sustainable finance to their future aspirations. In many ways, the transport sector faces the biggest upheaval to shift from decades of heavy dependency on fossil fuels, and after a hugely challenging period during the pandemic, transport operators are leaning on investment partners to help them ease and accelerate the transition. A report by SEO Amsterdam Economics and the Royal Netherlands Aerospace Center estimated that it will cost an additional €820bn for the European aviation industry to achieve Net Zero emissions status by 2050. **Air France-KLM** is among the growing number of European airlines to secure a billion-euro loan that have Sustainability & Impact key performance indicators (KPIs) embedded in the financing cost.

The utilities sector also requires huge investment in order to transition towards more sustainable activities. Some **59%** of participants from the utilities sector view sustainable financing as being important, and a great example of a company in this sector that has truly accelerated its modernization is Spain's **Iberdrola**. Between 2023 and 2025 the company is executing a €47bn investment plan focussed on installed renewable, onshore and offshore wind, photovoltaic, battery and hydroelectric capacity, plus electricity grids. Currently more than 58% of the financing volume of Iberdrola is ESG labelled, and the target is to achieve more than 70% by 2025.

Fig 2. What role will sustainable finance play in your organization?



THE CULTURAL SHIFT

In order to become more sustainable, organizations don't just need investment, or a re-working of the portfolio – they need to ensure that they have the right culture in place.

But to what extent do business leaders believe they have the right building blocks in place today?

One quarter of organizations participating in the study believe that they already have the right culture in place, while a further **36%** believe that only minor work is required. Confidence is highest in the manufacturing and transport sectors where 29% of businesses believe they already have the right culture in place.

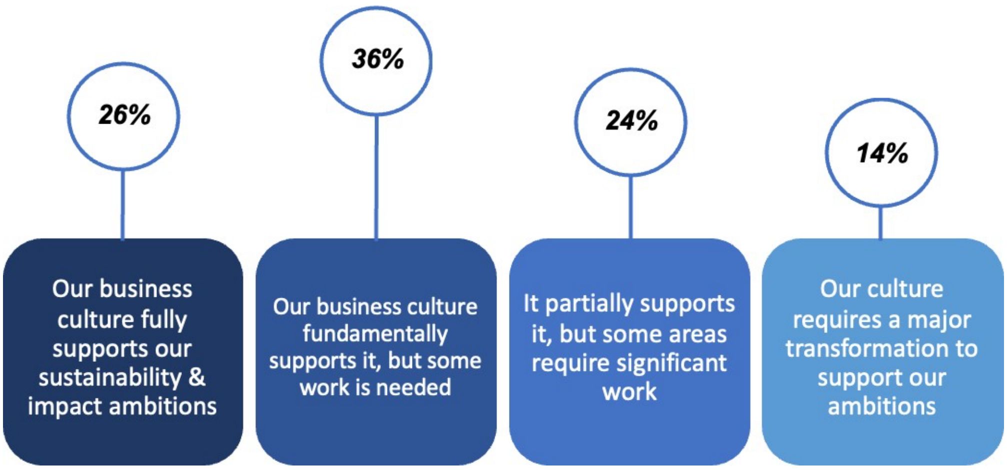
This is a surprisingly high level of conviction, given that the "culture" of a business is not just about an aspirational strategy document. It is about the way in which every member of the workforce performs their day-to-day activities, the ways that they are incentivized to work, and fostering a mindset to ensure that everyone is pulling together in the right direction.

Those organizations that are making signs of progress are those that have made seismic shifts led from the top. In one of other White Papers in this series, we looked at how automotive giant **Audi** implemented an internal carbon pricing programme that led to it charging itself $200 per ton of carbon emissions – four times the wider market rate – in order to incentivize lower-emission ways of working. had

Another good example is brewing company **Heineken**, which for decades aimed to be the fastest growing brand in its sector. But after experiencing a significant jolt to its trajectory during the pandemic, the company's leadership decided to fundamentally reset the company's strategy based around a more balanced approach to growth and sustainability,

The "Evergreen" strategy is designed to create long-term value for all stakeholders, including the planet, and is based around four key threads: growth; profitability; capital efficiency; and sustainability & responsibility. This strategy was driven by a team of 150 individuals brought together from different areas of the organization to start to change culture, values and behaviour, in part by identifying pockets of excellence across the globe and replicating them elsewhere where appropriate. The company is aiming to achieve 100% renewable energy in its brewing operations, with an overarching goal of Net Zero emissions from all its production sites by 2030.

Fig 3. To what extent does the culture of your business today support your organization's Sustainability & Impact ambitions?



Business leaders may be slightly over-confident on their readiness in terms of culture, but one area where they do admit some cause for concern is in the level of insight that they have to monitor and track the progress of their Sustainability & Impact strategies.

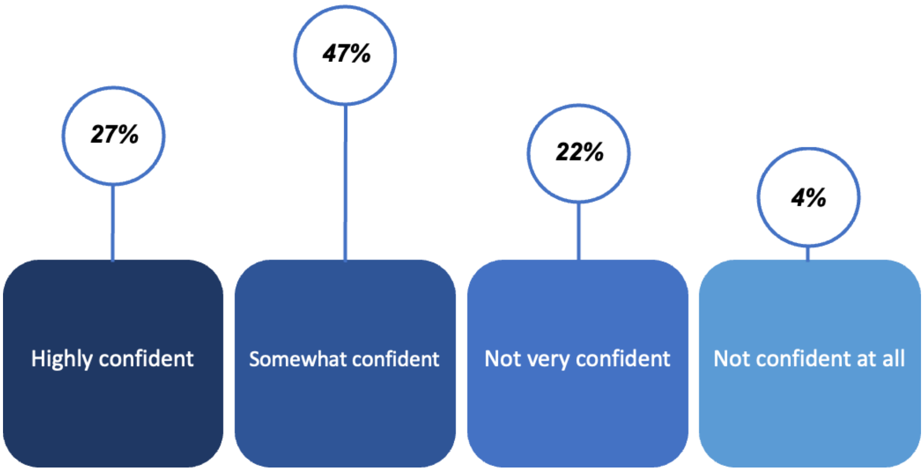
More than one quarter (**26%**) of businesses are not confident that they will have the insight that they need in place to deliver on their short-term sustainability targets, and a further **47%** rate themselves as only "somewhat confident." Confidence is lowest in telecoms and energy & utilities sectors, where almost a third (**32%**) of organizations say they have little or no confidence at all.

This gap needs addressing as a matter of urgency. Without access to the right data, it will be impossible to understand both the starting point and the pathway to their Sustainability & Impact ambitions. And with more than a quarter of organizations participating in the study aiming to achieve Net Zero carbon emissions status by 2030, they need to tackle this issue at speed.

The common thread in the most successful Sustainability & Impact strategies is the effective use of data. In one of the other *White Papers* in this series, we looked at how German insurance giant **Allianz** had created a dedicated Sustainability Methodologies and Analytics team and had developed a proprietary data tool called the Sustainability Insights Engine (SusIE) to enhance their understanding of relevant data. Swiss bank **UBS** established a dedicated ESG Data team to lead a group-wide strategy to build a central, cloud-based data management platform to drive consistency in the way that ESG-related data is collected, processed and reported.

Those organizations that have yet to put a formal ESG data strategy in place must act fast to lay the foundations that will give them a better chance of delivering on their Sustainability & Impact targets. It will also give them the opportunity to better harness emerging technology such as generative artificial intelligence, which can give add new levels of value in areas such as reporting.

Fig 4. What level of confidence do you have that will have the right data to ensure that you meet your Sustainability & Impact targets?



CONCLUSIONS & RECOMMENDATIONS

Business leaders have changed their thinking on the impact that becoming more sustainable will have on their financial performance.

There has long been a perception that transforming the business to drive an effective Sustainability & Impact strategy will compromise growth and hit the bottom line. But perhaps the most positive finding from this study is that the majority of executives now see it in a positive light, with many seeing it as an intrinsic part of their wider growth ambitions.

This mindset will be vital to driving real momentum, and we are seeing a growing number of organizations – including the likes of Heineken and UBS that we have covered in this White Paper – combining their ESG and financial targets as part of their overall strategy. Having a clear and transparent Sustainability & Impact strategy is important, but it is likely to be more effective and deliver greater value if it is positioned as being tightly integrated with the overall three- or five-year corporate strategy cycle.

Europe is leading the way on sustainable finance, and the majority of organizations believe that it will have an important role to play in shaping their future direction. For banks, it is a commercial opportunity, and innovators such as Deutsche Bank are looking to drive more sustainable activity across whole value chains as well as individual organizations. For asset-intensive sectors such as manufacturing, transport and energy & utilities, sustainable loans will play a critical role in accelerating their transformation.

Possibly the most surprising result from this study was the high degree of confidence that strategy leaders have in having the right culture in place to support their Sustainability and Impact strategies. Changing the culture of an organization, particularly that of a large, well-established brand, is a huge undertaking. It is encouraging to see so many businesses looking to set the tone from the top, with clear targets backed up by significant levels of investment.

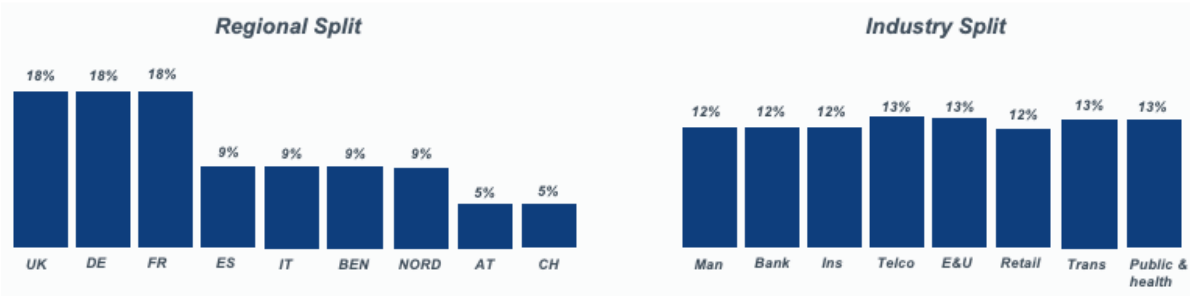
However, effecting a real cultural change requires change at the grassroots level of the organization, with every member of the workforce understanding the value to the business of adapting their behaviour and ways of working to more sustainable practices. Those businesses that are driving meaningful change today are those that involve working groups from all tiers and departments within the business to shape and implement the strategy, and put the right incentives in place to ensure that everyone pulls in the right direction.

What will be key to the success of all these areas – from the successful use of sustainable financing to reshaping the culture of the organization – is an effective data strategy. It is concerning that despite so many companies looking to push ahead with their Sustainability & Impact progress in the short-term, many believe that they do not have the level of insight to track and ensure they deliver their strategies. Investing in the right data collection and management tools will be important, but implementing an organization-wide strategy that raises awareness and appreciation of the value of data to helping the company meet its targets is fundamental.

METHODOLOGY

The findings of this study are based on a survey of senior business and technology executives at 550 large and medium-sized organizations based in nine major Europe economies. All of the participating organizations have between 500 to 5,000 employees and operate across eight different industry sectors. The survey was run in the first quarter of 2023. A breakdown of the survey sample by industry and region can be found below.

Breakdown of Sample Group by Sector and Region



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