Executive Study

Operationalizing Sustainability & Impact

How European Sustainability & Impact Strategy Leaders are Building Momentum and Tackling the Key Challenges

A PAC Research Study

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INTRODUCTION

Sustainability & Impact strategy leaders at European businesses face a hugely difficult balancing act.

Many organizations have now mapped out multiple targets to reduce their carbon emissions, improve their energy efficiency and transform their wider environmental impact.

But in a period of renewed economic and geo-political volatility, many now have to implement their Sustainability & Impact strategies alongside new imperatives to improve operating efficiency and resilience. At the same time, many brands have been accused of over-stating their progress through “green-washing.”

What is the real picture? 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.

The ultimate aim of the study to understand whether sustainability ambitions had been sidelined or de-prioritized due to wider market challenges, and to identify the main opportunities and barriers that strategy leaders currently have on their radar. In this White Paper, the first in a series based on the headline findings of the study, we explore some of the key talking points around sustainability today. What proportion of organizations have committed to achieving clear, measurable Sustainability & Impact targets, and how quickly are they aiming to deliver them? What are the short-term initiatives that they believe will deliver quick wins? And what are the key barriers they will have to tackle in order to unlock value at speed?

This White Paper is designed to help Sustainability & Impact strategy leaders benchmark their own thinking and progress against other European 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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TARGETS & DRIVERS

Sustainability & Impact leaders have little time to waste if they are to deliver on the critical pillars of their strategies.

PAC's study, based on briefings with executives at 550 major European organizations, found that more than half (**54%**) are committed to achieving Net Zero carbon emissions status by 2040, while more than a quarter (**27%**) are aiming to achieve Net Zero status either before, or by 2030 at the latest.

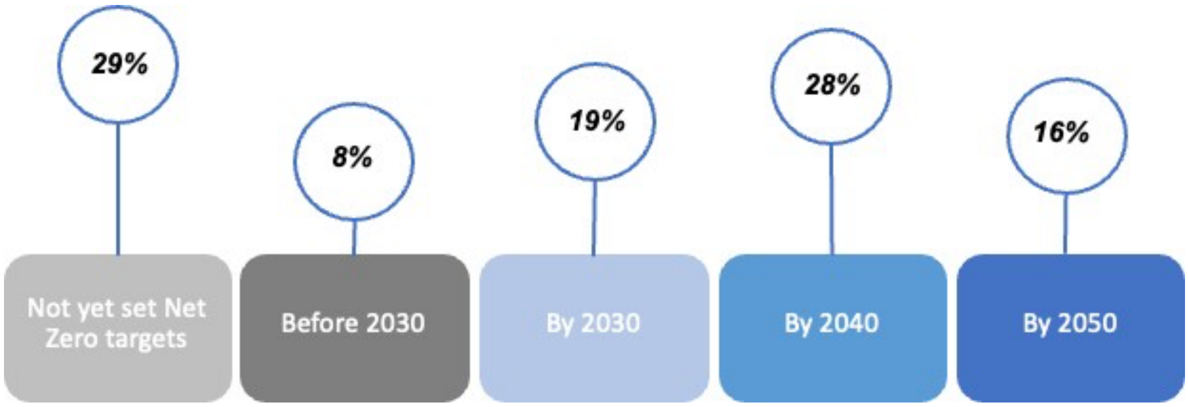
Companies in the Nordic region and UK are moving the fastest, with **41%** in the former expect to achieve Net Zero status by 2030, ahead of **33%** in the latter. Finland-based engineering company **KONE** is a good example of a major international group that mapped out clear, staged goals, with the aim of achieving carbon-neutral operations by 2030 and carbon-neutral manufacturing by 2024. UK insurance group **Legal & General** has committed to become net zero across their entire operational footprint from 2030, and by 2050 it is aiming to have a net zero asset portfolio in line with the 1.5 degree Celsius "Paris" objective.

The group of laggards continues to get smaller and smaller, with only **29%** of European organizations yet to formally set science-based Net Zero targets. More than one third of organizations in the Benelux region, Germany and Spain have yet to make a commitment, but even in these territories, there are businesses looking to move at greater speed. Spanish fashion retail group **Inditex** moved its overall Net Zero target forward by a decade to 2040 as part of a raft of Sustainability & Impact commitments including reducing water consumption across its supply chain by a quarter in the next two years.

From an industry perspective, it is manufacturers that are aiming to move the quickest on decarbonization. Close to half (**45%**) expect to achieve Net Zero status by 2030, and the sector is home to some of the most innovative examples of sustainable transformation in Europe. Drinks producer **Diageo** is working with manufacturing partner Encirc to create the world's first Net Zero glass bottles, with the aim of producing 200 million units annually by 2030.

The largest group of laggards can be found in the transport sector, with **36%** yet to commit to achieving Net Zero status. The aviation sector in particular faces huge challenges to overcome a historical dependence on carbon-based fuels, but strategy leaders are being pressured by shifting customer demands to step up to the plate. **London City Airport** has slashed its Net Zero goal from 2050 to 2030 in order to get ahead of what it believes will be a move by its largely business passenger base to cut back on flying in order to reduce emissions. **Siemens** has converted some of its production sites to carbon neutral status eight years ahead of schedule through the use of renewable energy sources and smart building management systems.

Fig 1. What is your organization's commitment to achieving Net Zero status?



London City Airport is one example of an organization whose Sustainability & Impact strategy is being driven by its customer base, and it is a common theme for many participants in the study.

There are multiple drivers that are shaping strategies, but customers (**46%**) and employees (**37%**) are the two groups that are seen as the most important. The customer is king in all three countries in the DACH region (Austria, Germany and Switzerland), with over 50% of organizations rating it as the most important factor, but many businesses in across all regions cite customers as major influencers.

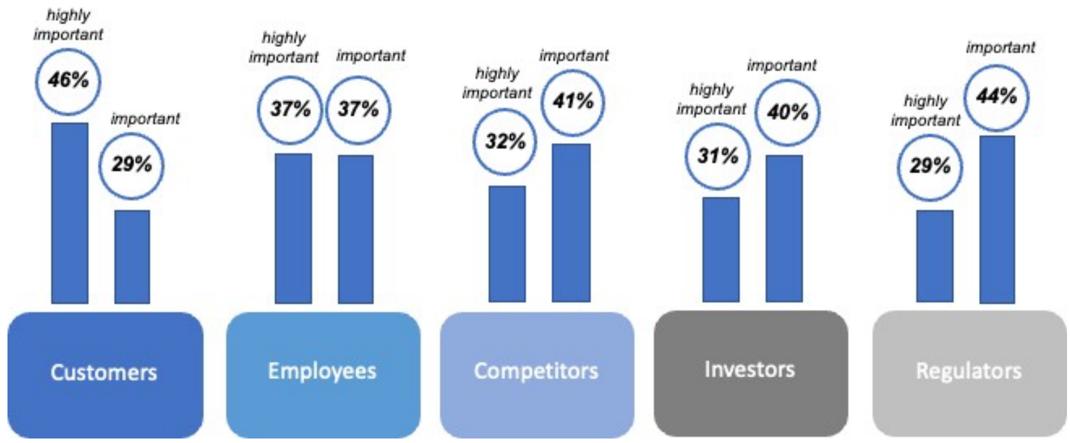
Retail group **Selfridges** undertook research on its own customer base which found that more than 50% wanted to make more sustainable choices but didn't know how to. The company responded with its "Project Earth" initiative which saw it make a commitment to having 45% of its transactions coming from circular products and services by 2030. French cosmetics group **L'Oreal** has set itself the ambitious target that by 2030, 95% of its ingredients will be derived from renewable plant sources, abundant minerals, or circular processes. The move comes at a time when a Global Cosmetics Industry survey identified that two thirds of consumers view sustainability as a "very important" factor when considering the purchase of a beauty product.

The workforce is playing an increasingly important role in shaping the direction of Sustainability & Impact strategies. Public transport group **Arriva** took a similar survey of its customer base which revealed that the majority of UK adults would consider leaving their current job in order to pursue a role they perceive as "greener." This was echoed in research from accountancy group **KPMG** which found that 20% of office workers would turn down a job if a company's Sustainability & Impact credentials were deemed lacking. With many European businesses struggling to attract and retain the best talent, this is a critical issue.

Some **29%** of European organizations currently perceive regulators as being "highly important" drivers for their Sustainability & Impact strategies. This is likely to increase in the coming years as more states and industries implement new regulatory frameworks. For example, Germany introduced the **Supply Chain Due Diligence Act** at the start of this year, which means that companies face fines of up to 2% of their global turnover if they cannot demonstrate transparency on key aspects of Sustainability & Impact in their supply chain. More than two third of companies in Germany view regulators as either "important" or "highly important" factors.

There are some differences in drivers across industry sectors. For example, banks view investors as the most important factor in shaping their Sustainability & Impact strategies, while retailers and energy & utilities companies identify their customers as the number one influence. Many European banking groups are shaking up their product offerings in order to keep pace with evolving investor preferences. **HSBC** announced that it has stopped financing new oil and gas projects, while **BNP Paribas** is among a growing number of banks that incorporate key performance indicators relating to carbon emissions reduction into financing deals.

Fig 4. What are the main drivers shaping your Sustainability & Impact strategy?



QUICK WINS & BARRIERS

The majority of European organizations have made commitments to achieving important Sustainability and Impact milestones over the course of the next couple of decades.

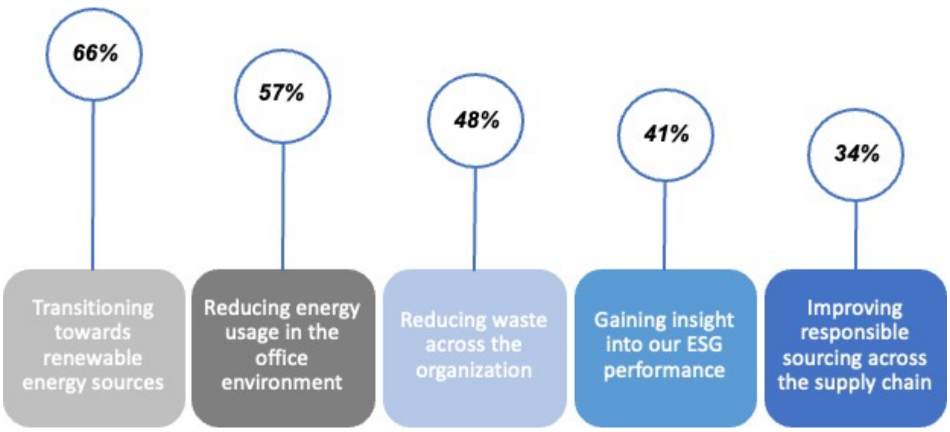
However, they are also under growing pressure from stakeholders including customers, employees and investors to show demonstrable signs of progress in the short term as well. The PAC study found that organizations identify multiple areas that they believe can deliver rapid returns, from more efficient energy use and waste management to gaining improved insight into their current performance.

Shifting to renewable energy sources (**66%**) and reducing energy and natural resources usage in the office environment (**57%**) are the highest rated areas. For many businesses in Europe, the transition to renewable energy sources has been accelerated by the impact of the changing geo-political climate on available gas resources. But many organizations are also making significant infrastructure investment to harness renewable energy in their day-to-day operations. For example, Swedish retail group **IKEA** is investing tens of millions of euros in charging stations for electric vehicles to support the transition of its delivery fleet.

The office environment has become a target for many Sustainability & Impact initiatives as businesses look to build on the transformation of their office footprint and employee working patterns triggered by the pandemic. Many firms have made natural gains by reducing the size of their office estate as they pivot towards increased remote working, but some still anticipate some major gains in the coming years. **Deutsche Bank** has already reduced the amount of electricity it directly purchases across Germany by 25% since 2018, but it now plans to cut an additional 4,900,000 kWh of electricity each year through measures including a reduction in the use of air conditioning and lighting.

Responsible sourcing is an area where **one third** of organizations believe they can generate quick returns on investment. This level rises to almost one half of businesses in the retail sector (**46%**) where companies are under pressure to stay in tune with growing consumer for more sustainable products. Netherlands-based retail group **Ahold Delhaize** is playing an active role in Seafood MAP, an initiative launched by the Global Sustainable Seafood Initiative (GSSI) to support the acceleration of sustainability efforts within fisheries and for aquaculture ventures not currently reached by existing certification schemes. It is also an area where there are many interesting collaborative ventures emerging. **Vodafone** recently unveiled a partnership with environmental charity WWF designed to improve the circularity, collection and recycling of smartphones.

Fig 3. What do you see as the "quick wins" for your organization's Sustainability & Impact strategy?



It is encouraging to see that Sustainability & Impact strategy leaders identify multiple areas where they can build early momentum. But what are the obstacles that they believe will be the most difficult to overcome in order to achieve success?

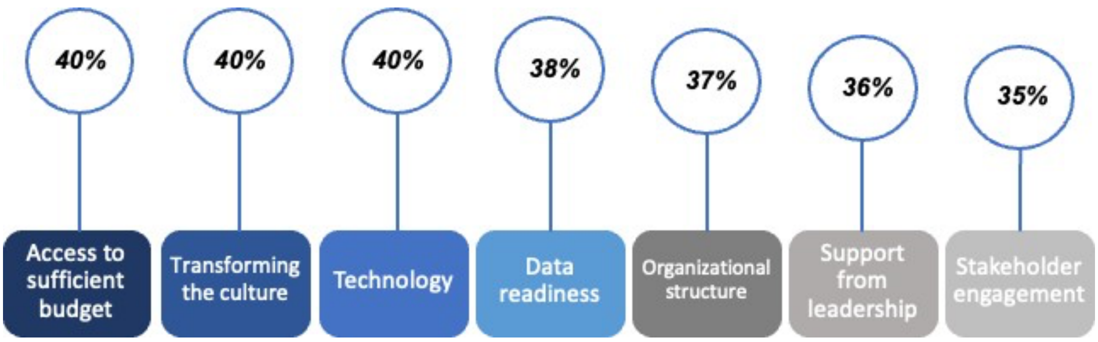
Budget constraints, cultural change and technology are the stand-out challenges, with **40%** of organizations stating they are significant barriers to progress. It is not surprising to see such a significant proportion of businesses highlighting budget given the volatile economic conditions in the region, but the level of investment required to support Sustainability & Impact programmes can be huge. Swedish clothing company **H&M** has set an annual budget of more than €260m to decarbonize its value chain and reduce its absolute scope 1 and 2 emissions and scope 3 emissions by 56% by 2030.

Almost half of banks and public services organizations identify the need to transform the culture of their organization as a significant barrier. Changing the culture can require drastic measures which may lead to short-term pain in order to drive meaningful, lasting change. For example, automotive manufacturer **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. Luxury fashion retailer **Toward** is challenging the high consumption levels of "fast-fashion" by alerting customers when they have placed 12 orders during a year. Meanwhile, **Microsoft, Google** and **Mars** are among a large group of organizations that continue to discourage employees from non-critical air travel, partly as a result of ongoing cost control measures, but also to support their decarbonization targets.

As we shall explore elsewhere in this series of White Papers, the technology and the enterprise digital team will have a critical role in enabling Sustainability & Impact strategies, and in many cases, is already making a major contribution to impact improvement efforts. However, it can also serve as a barrier, particularly when businesses are running a fragmented landscape of enterprise applications which makes it very difficult to build a single, consolidated view on emissions and other consumption data. This will be essential if business leaders are going to be able to report progress to investors, regulators and other stakeholder groups.

Accessing and harnessing the right data is already proving to be a challenge for many businesses. An inability to glean the required level of insight from data is perceived as a particular problem in the financial services sector, with **46%** of banks and **44%** of insurers citing it as an issue. Recent research from consulting group **Bain & Co** found that Sustainability & Impact teams typically spend as much as 70% of their time on data collection, and those organizations that are serious about building momentum are tackling this issue as a matter of urgency. German insurance giant **Allianz** created a dedicated Sustainability Methodologies and Analytics team to address the challenges of data selection, aggregation and implementation across public and private asset classes. This team also harnesses a proprietary data tool called the Sustainability Insights Engine (SusIE) to enhance their understanding of relevant data.

Fig 4. What do you view as the main barriers to your Sustainability & Impact ambitions?



CONCLUSIONS & RECOMMENDATIONS

The headline findings of this part of the study show that while the majority of European organizations have mapped out their Sustainability & Impact ambitions, there is a huge amount of work to do and challenges to tackle on the path to success.

But what are the key takeaways for your own organization? Firstly, if your business has yet to formally set out your own strategy, you are now among a shrinking minority, and risk losing a competitive edge to your rivals in attracting customers, talent and investors. However, it is not too late to act, and it is encouraging that many organizations have identified multiple areas that can deliver quick wins to help them build early momentum.

This study highlights multiple examples of European organizations that are successfully operationalizing their Sustainability & Impact strategies, and there are some common threads that may prove valuable to your own business.

While committing to long-term targets on aspects such as decarbonization and waste reduction helps set out a clear agenda, the businesses that are building the most momentum are generally those that are working to a staged roadmap which aims to hit milestones at more regular intervals. Insurance group **Legal & General** is a good example. The firm has tripled the number of sustainability-specific initiatives in undertakes annually to more than 600 in the last two years and while it has clear goals for 2030, it is aiming to deliver an 18% reduction in the carbon footprint of its investment portfolio this year.

Many organizations acknowledge the need for a cultural change in order to drive meaningful change, and there is an appreciation that this will be a big challenge. Appointing a dedicated Sustainability & Impact executive or team is important and can help to drive accountability and leadership. But driving an organization-wide shift towards a sustainability-centric mindset can require greater action. **BNP Paribas** and **H&M** are among a growing number of companies that now effectively run two profit & loss accounts – one to track traditional cost and revenue performance and one to measure decarbonization and wider sustainability metrics. This is designed to incentivize the entire workforce to change their behaviour, and at a time of growing consumer scepticism over “green-washing,” will help to prove that your organization is truly “walking the walk.”

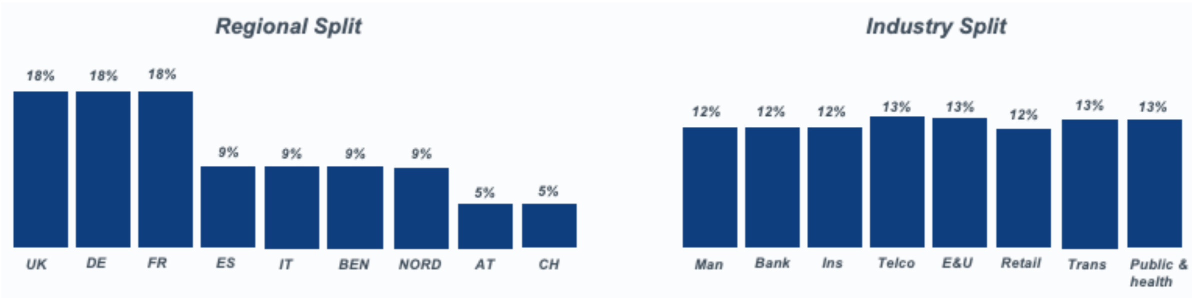
The effective use of data will be a key enabler to these initiatives, and the study found that this is an area where organizations are currently struggling to collect the relevant information and to convert this into actionable insight. Not every organization has the resources to take the approach of **Allianz** in building an internal team of data experts supported by a custom-built platform. However, there is potential for many businesses to harness their existing ERP or enterprise applications platforms and to work with specialist partners to unlock, consolidate and process the relevant data sets to support what will become increasingly stringent reporting requirements.

Above all, this is not a journey that you need to take on your own. All of the organizations discussed in this study have engaged with external partners to help them speed their Sustainability and Impact journeys, from helping them design the right targets, operating models and governance structures, to supporting the underlying data and technology strategy. Even the most powerful brands in your industry sector find it challenging to recruit the leadership and execution teams they need to make their Sustainability & Impact goals a reality, and effective collaboration and co-creation with a partner ecosystem will be crucial to success.

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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