Sustainable transition: the most urgent jobs according to business leaders

do your thing

We have work to do. Where do we start?

"Growing our business means achieving our climate targets, and we can only do that together with our customers. That means understanding that our sustainability strategy is not separate to our corporate strategy – it is the core of our corporate strategy."

David Radermacher
Vice president of sustainability at E.ON

The clock is ticking to get on the pathway to net zero, and the jobs to be done are challenging. They are varied and complex, and every part of society – governments, companies, shareholders and individuals – has to get / be involved. So, what should we prioritise?

We surveyed 450 senior executives across sectors in the US, Europe and APAC to understand the milestones they are working towards and the challenges keeping them awake at night. The results show that most are still focused on the quicker wins, such as reducing waste and energy consumption, rather than the broader challenge of sustainably transforming emissions-intensive economies.

- 55% of companies are confident that they can achieve net zero greenhouse gas emissions by 2050.
- Adapting product models and addressing Scope 3 emissions are where we will make real progress towards net zero, but less than a third of companies say they have made the most progress in these areas, and less than a quarter plan to tackle these challenges in the next two years.
- Heat, floods, droughts and decreasing biodiversity are already changing the planet. 50% of companies say they are still struggling to identify their exposure to the physical risks of climate change.
- However, most companies are aware of what a fair transition to net zero means: 65% say that investing to manage the social implications of the climate transition is seen as part of their company's business growth strategy.

Right now, the short-term priority is to accelerate decarbonisation strategies. It's time to map the risks, prepare for regulatory and policy change, and secure the finance to make it happen.

In the medium term, we will need to overcome bigger barriers and bottlenecks by, for example, redesigning products and services to reduce emissions in the supply chain. And we must make sure that business plans address the social impacts of climate change and the energy transition.

It's only when these jobs are done that decarbonisation will become a sustainable reality.

Net zero: time to get on the ball

- Current national climate plans – for 193 Parties to the Paris Agreement taken together – would lead to a sizable increase of almost 11% in GHG emissions by 2030, compared to 2010 levels, while -45% is needed to keep warming to no more than 1.5 °C.[1]
- The best estimates of the remaining carbon budgets from the beginning of 2020 are 500 $GtCO_2$ for a 50% likelihood of limiting global warming to 1.5°C and 1150 $GtCO_2$ for a 67% likelihood of limiting warming to 2°C.[2]
- The world's listed companies are expected to use up their share of the global carbon budget by November 2026.[3]
- The global economy could gain US$43 trillion over the next five decades by rapidly accelerating the transition to net-zero. Inaction on climate change could cost the world's economy US$178 trillion by 2070.[4]

Job 1:

Identify and mitigate climate risk exposure

Business leaders must face an uncomfortable truth: climate change creates extensive risks for companies. These risks take several forms, including physical risks, such as extreme weather events and climate shifts, and legal risks, such as the potential for climate-related litigation. Other concerns include changing customer behaviour, stranded assets and ESG performance affecting access to capital.

"Running an energy network across Europe means it doesn't matter where and when an extreme weather event will happen – in some form, we will be impacted," says David Radermacher, vice president of sustainability at German energy company E.ON. "And what's at risk? The security of supply in that region. That's why we try to adapt to a changing environment."

So, the stakes are high. Business leaders have to identify and assess the impact of transition risks, and many already are: 50% of our respondents say that identifying material climate-related risks is the initiative they are prioritising in the short term.

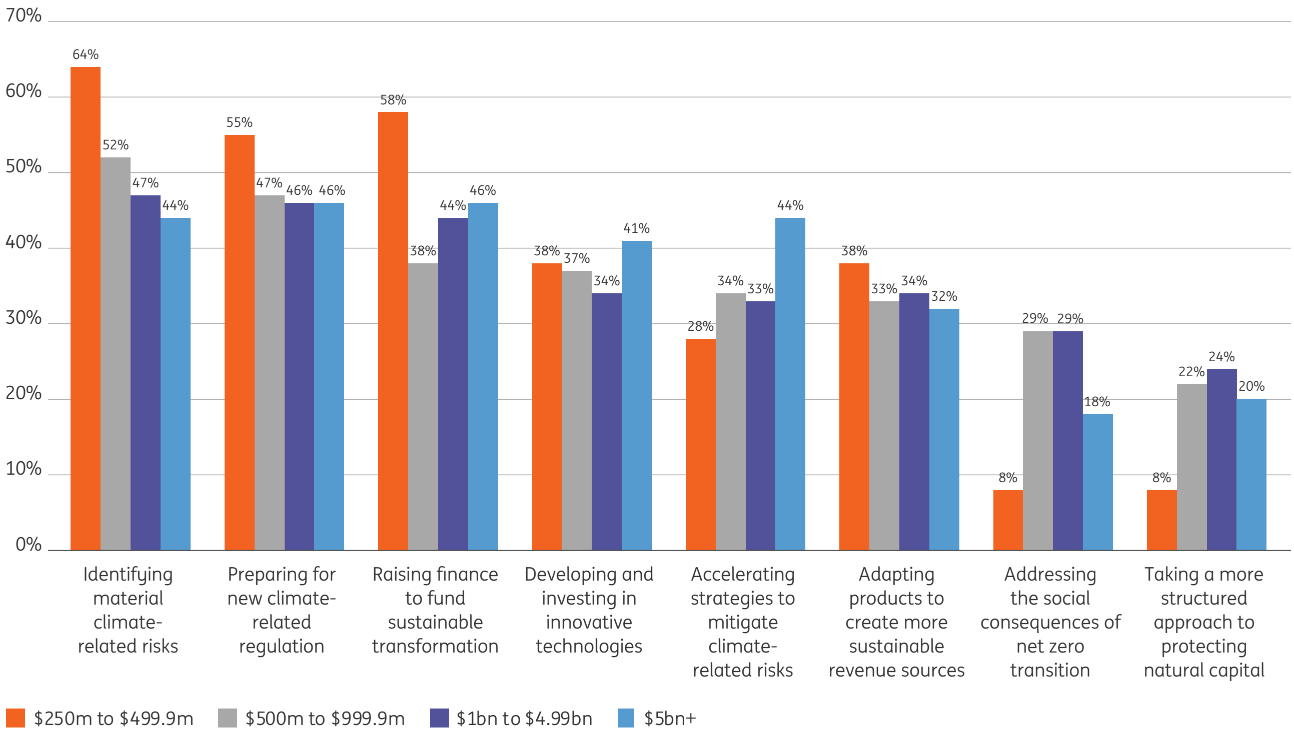
Figure 1
Climate-related risks and regulations are the top short-term priorities

Unfortunately, not everyone is moving at the same pace. Companies with global annual revenue of less than $500 million are more likely to still be identifying material climate-related risks and raising finance to fund sustainable transformation over the next two years. Companies with revenue above $1 billion, on the other hand, are already accelerating strategies to mitigate climate risks and are developing innovative technologies.

Figure 2

Bigger businesses are accelerating their climate risk mitigation

The sustainable transformation initiatives companies are prioritising



Our research shows that most companies still have a poor grasp of physical risk exposure. Only 26% say they have made a robust assessment of acute physical risks, such as extreme weather events, and only 25% have assessed risks related to longer-term shifts in climate patterns.

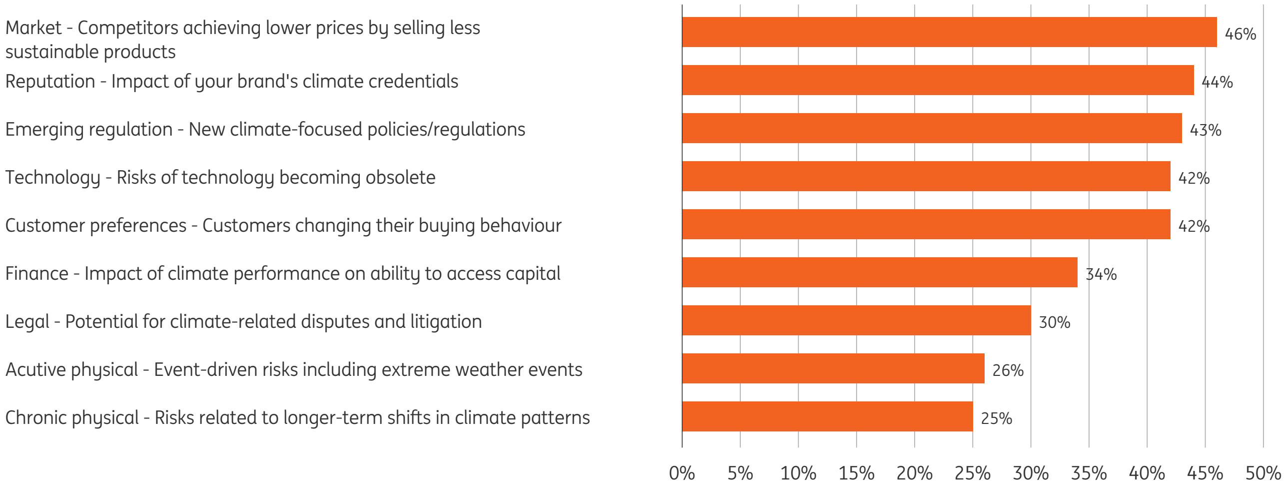
The problem is that some of these changes in climate and weather and their impact are difficult to assess.

“Climate change comes with unpredictable consequences in terms of catastrophic weather events such as tornadoes, heavy winds and other extreme weather,” says Jenny Wassenaar, chief sustainability officer at Trivium Packaging. “These extreme weather conditions are happening with increased intensity and in new places and bring with them risks to people and property. As a company, we are assessing these risks for our locations to be as prepared as we can be.”

Figure 3

Some dangerous climate risks are not getting enough attention

Percentage of companies with robust assessments of following risk



"These extreme weather conditions are happening with increased intensity and in new places and bring with them risks to people and property. As a company, we are assessing these risks for our locations to be as prepared as we can be."

Jenny Wassenaar
Chief sustainability officer at Trivium Packaging

The risks are far-reaching, and many leaders recognise that change begins with them: 44% of C-suite executives intend to make climate issues a bigger focus within their job remit, and 40% plan to use their position to raise awareness of climate issues outside the company.

They are right to. Not only are their efforts vital for the planet, but organisations that have not developed strategies to map and mitigate risk will also face greater cost and risk in future.

The bottom line

- Companies must do more to identify and mitigate their climate risk exposure. They are trying to understand their level of risk, but most still have a poor grasp of physical risk exposure: only about a quarter have robust assessments of physical risk impacts.
- Companies with annual revenue below $500 million are still in the early stages of identifying material climate-related risks, preparing for new climate-related regulation and raising finance to fund sustainable transformation over the next two years. The ones with $1 billion or more in annual revenue are more focused on accelerating strategies to mitigate climate risks and developing innovative technologies.

C-suite leaders will be central to the change, and 44% plan to make climate issues a bigger focus within their job remits.

Job 2:

Decarbonise the supply chain

More than half of our respondents say that energy efficiency and reuse and recycling of materials is where they have made the most progress to date.

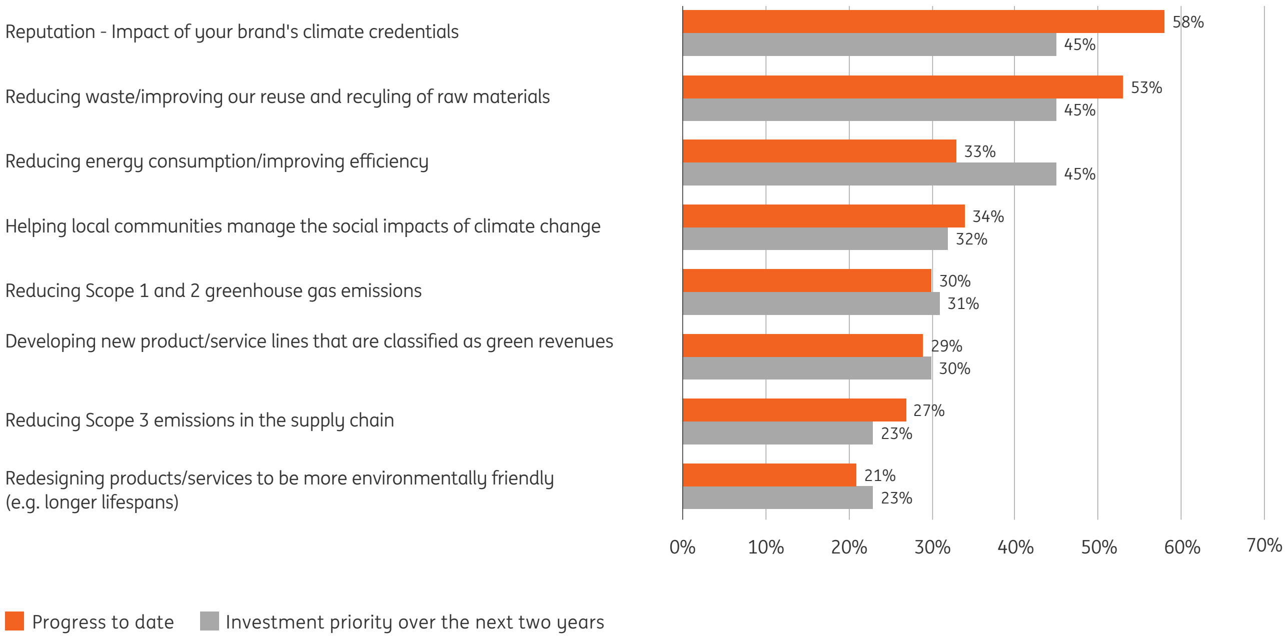
But bigger challenges lie ahead.

The more complex jobs to be done are adapting product models and reducing Scope 3 emissions, but both of these are expected to remain on the backburner for investment. Only 23% of our respondents say that these are investment priorities for the next two years.

Figure 4

Less than a third of companies are prioritising investment in reducing Scope 3 emissions

The sustainanility initatives companies are prioritising



“When we have our conversations with customers, we hear that they are finding it quite difficult to get their heads around Scope 3”

Dan Myers
Managing director for UK and Ireland of XPO Logistics

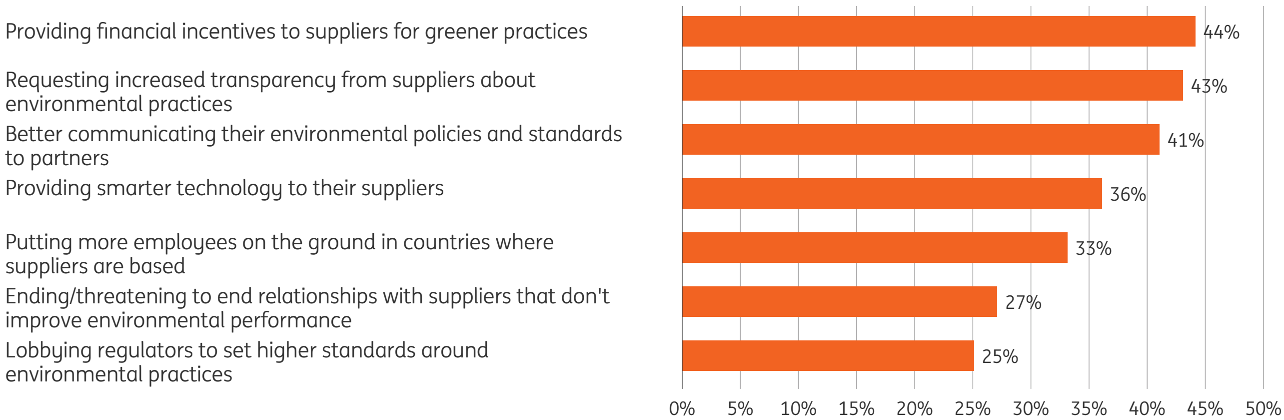
Most Scope 3 emissions come from the supply chain, where emissions data can be hard to assemble. So it’s revealing that while 70% of the respondents who are in sustainability roles are confident that their company can achieve net zero by 2050, only 47% of the respondents who manage supply chains agree.

“When we have our conversations with customers, we hear that they are finding it quite difficult to get their heads around Scope 3,” says Dan Myers, managing director for UK and Ireland of XPO Logistics. “They are finding it very easy to quantify Scope 1 and Scope 2, which are much more directly related to their own operations. But when they get into Scope 3, it’s more challenging for them to get a baseline of what those look like.”

Figure 5

To make them more sustainable, companies are most likely to incentivise suppliers

Steps companies are prioritising to make their supply chains more sustainable



Challenging it may be, but companies understand the importance of including their partners and suppliers in their decarbonisation efforts. About four in 10 of our respondents recognise that they need to request increased transparency from suppliers when it comes to their environmental practices (43%) and improve how they communicate their environmental policies and standards to partners (41%).

Our research suggests that companies are using more carrot than stick to encourage suppliers to take part in their decarbonisation. The most popular initiative they are prioritising is providing financial incentives for greener practices (44%).

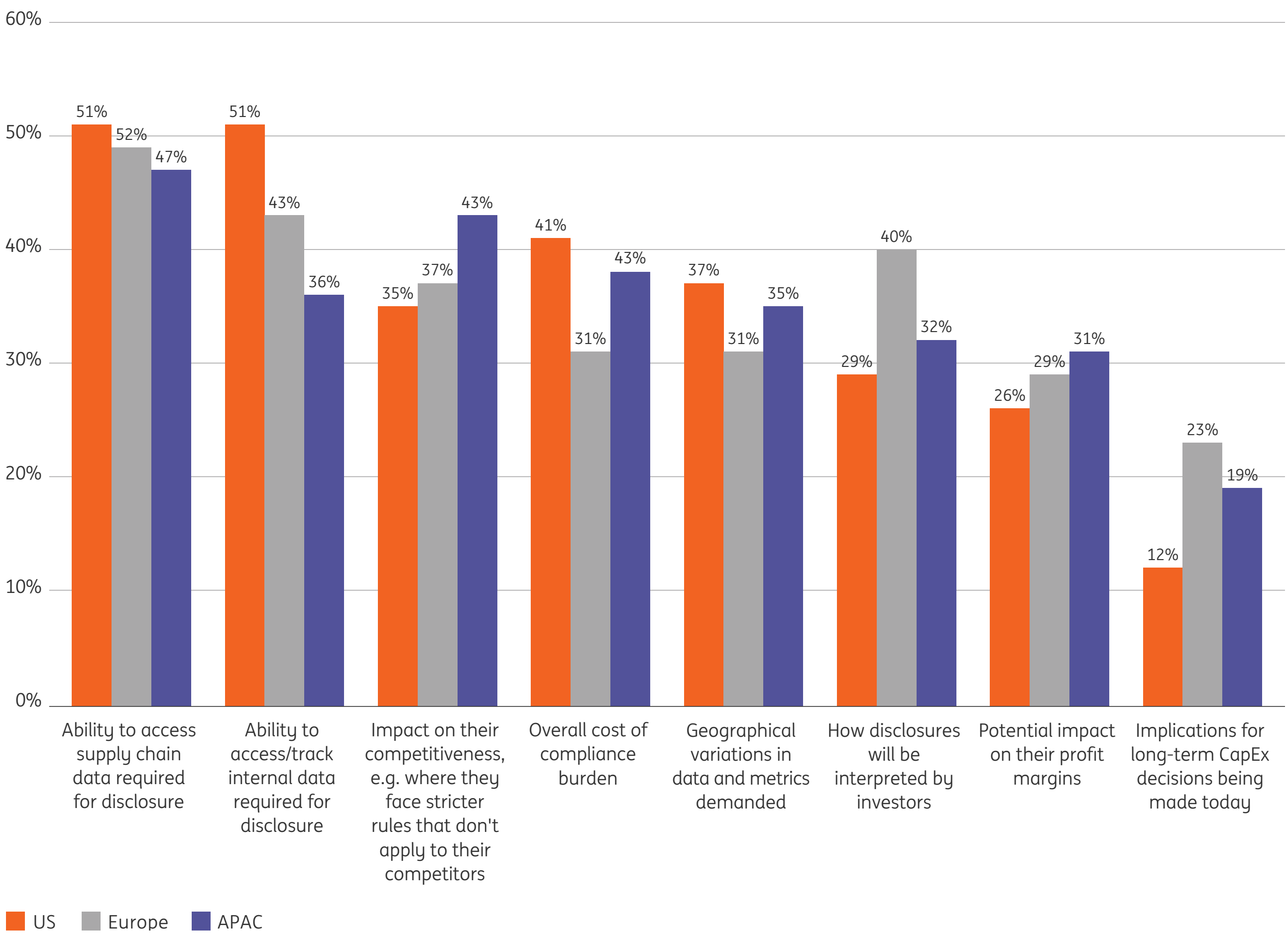
Data is crucial here, with many respondents seeing this as a major component in reaching net zero and avoiding regulatory risks along the way. Having supply chain data will help gather Scope 3 emissions and give companies the information they need to create net zero strategies that last long term.

But almost half of respondents (49%) say they are concerned about their ability to access supply chain data in order to meet climate regulations.

"Data transparency allows for more reflective decisions – more fact-based decisions"

David Radermacher
Vice president of sustainability at E.ON

Figure 6
Access to data is companies' top concern about climate-related regulations



Creating accountability in the supply chain is one of the biggest jobs for companies to tackle. If they move too slowly, regulatory disclosure requirements will almost certainly catch up. Companies that manage to decarbonise their supply chains may discover opportunities that boost their sustainability and their profits; the ones that fail will find it much harder to comply with emerging climate regulation.

"Data transparency allows for more reflective decisions – more fact-based decisions," says Radermacher. "So digitisation puts us in a position to have smarter grids."

The bottom line

- Adapting product models and reducing Scope 3 emissions will be the really difficult part of the climate transition, but less than a third of respondents have made progress in these areas.
- Many companies understand that they need to include their partners and suppliers in their decarbonisation efforts, and 41% are working to improve supply chain communication and transparency.
- Supply chain data is an important way to implement sustainability and avoid regulatory risks, but difficulties accessing this data are holding up progress.

Job 3:

Make it a fair transition

Decarbonisation is the goal. But it's going to be disruptive, and in order for climate policy to be sustainable it needs to factor in social inequalities. It's vital that the people who are leading change consider the impact of change on communities and customers.

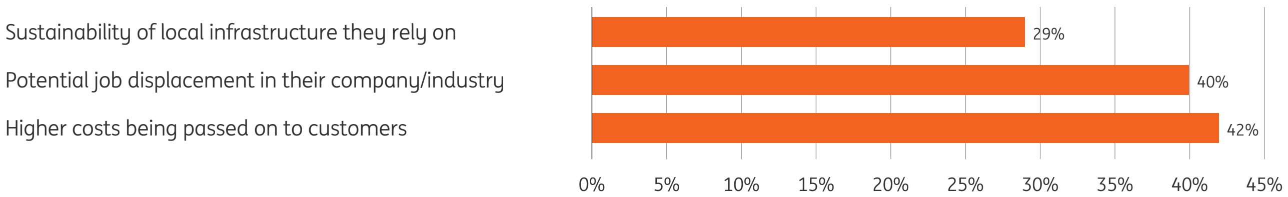
Our research shows that companies have not yet done enough to address the social impacts of their net zero transitions. Only 29% have properly assessed the potential impacts of the climate transition on the local infrastructure they rely on. And only 40% have a robust assessment of potential job displacement in their company or industry. More are assessing how higher costs are going to be passed on to customers.

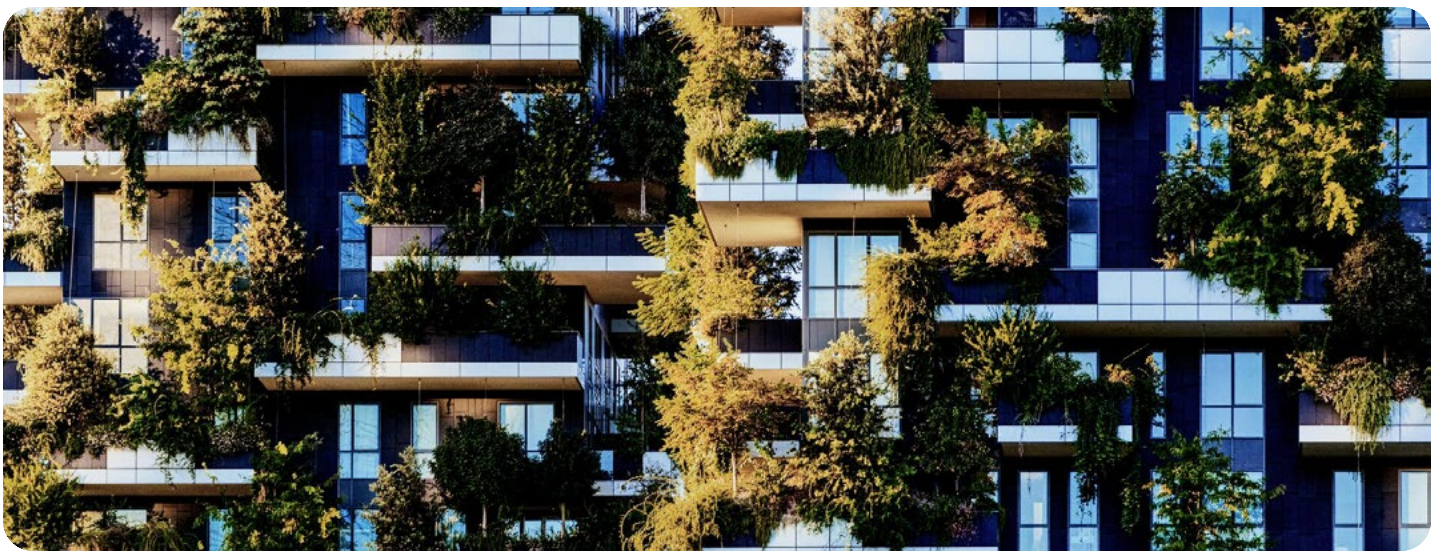
The good news is that many companies are realising their responsibility: 45% say that helping local communities to manage the social impacts of the net zero transition will be a top priority for increased investment over the next two years.

Figure 7

Most companies are not doing enough to assess the impact of the transition on local communities

Percentage of companies that have conducted robust assessments of the following social impacts



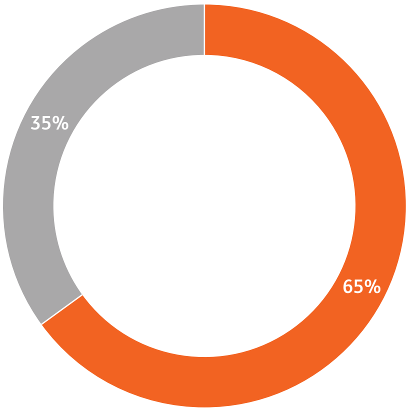


Most of our respondents understand that addressing social impacts is more than just good corporate citizenship – it's good business. About two-thirds (65%) say that investing to manage the social implications of the climate transition is part of their company's growth strategy as well as their duty as a responsible business.

Dan Myers explains how XPO Logistics put this perspective into action. "One of the challenges we considered, particularly when looking at alternative fuel, was the potential conflict between land use for fuel versus food," he says. "When we went to source our fuel product, we were very clear that we did not want this conflict. We made a deliberate decision to engage on that project in a responsible manner." XPO Logistics resolved the conflict by sourcing sustainable fuel from food waste, which created a sustainable product that does not take any land away from agricultural use.

E.ON, meanwhile, is running a pilot project on the island of Tenerife that turns consumers of energy into 'prosumers'. A peer-to-peer exchange enables about 200 consumers to sell excess electricity generated by rooftop solar PV to each other at a reduced cost. The 'Adeje Verde' initiative showcases how islands in the European Union can increase access to affordable and sustainable energy.

Which statement best describes your personal view of the social impact of the net zero transition?



- It is our duty as a responsible business to consider social impact, and I also see it as part of business growth/revenue strategy
- It is our duty as a responsible business to consider social impact, but I don't see it as part of business growth/revenue strategy

This is how companies can drive progressive sustainability initiatives in a fair way – by working closely with government, local municipalities and social institutions to bring communities with them as they transition.

Who pays for the transition?

But this approach is not without its challenges. Many leaders working towards net zero struggle to close the 'value-action gap' that forms when companies and individuals understand the importance of sustainability, but are unwilling to pay its costs.

"It's really difficult for customers to shift gear in terms of living a sustainable lifestyle and investing into their own energy infrastructure," says Radermacher. "At the same time, companies feel some of the pressure from financial markets. In the context of multiple challenges – geopolitics, trade wars – sustainability is only one topic on their agenda. We work with both ends to make it clear what our priorities are and try to help them bridge their value-action gap to make it as easy as possible to deliver sustainable solutions."

When it comes to paying for net zero, 55% of respondents predict businesses will contribute the most. Next comes consumers (20%), who will be expected to pay more for high-carbon goods and services.

Regardless of who pays, we know that the net zero transition comes at a cost. But if we can distribute cost and benefit fairly as part of a just transition, that will be a job well done.

"One of the challenges we considered, particularly when looking at alternative fuel, was the potential conflict between land use for fuel versus food"

Dan Myers
Managing director for UK and Ireland of XPO Logistics

The work ahead A recap

The race to net zero is upon us, and we all need to help make our climate goals a reality. For business leaders, the jobs to be done fall into three areas.

1. Identify and mitigate climate risk exposure

Each company will face different levels of climate risk and understanding them should be the foundation of your transformation strategy.

Our research shows that companies are improving their understanding of this issue: identifying climate-related risk is the top initiative they are prioritising in the short term. But many are struggling to forecast the physical risk impacts – particularly in the longer term.

And not all of them are taking appropriate steps to lessen those risks. Larger companies are more likely to put mitigation strategies into action, while smaller businesses are still struggling to raise finance and prepare for climate regulation. Across the board, the issue of risk exposure competes with other pressing challenges such as market competition, brand reputation and emerging regulation.

The stakes have never been higher. It's time to ask yourself: is your business prepared to adapt to the changing environment?

2. Decarbonise the supply chain

The true test of transformation will come in adapting product models and addressing Scope 3 emissions. Unfortunately, less than a third of respondents say their companies have made much progress here, and less than a quarter plan to tackle these challenges in the next two years. Most focus their efforts on the low-hanging fruit of reducing waste and energy consumption and put supply chain issues on the backburner for investment.

Creating accountability in the supply chain is one of the biggest jobs for companies to tackle, and the challenges of assembling and disclosing supply chain emissions data make decarbonisation even more complex. Transparency and innovation are crucial, which is why companies must bring their partners and suppliers on board if they are to meet emerging regulatory demands.

3. Make it a fair transition

Decarbonisation, by necessity, brings disruption – and if you are leading that change, it's vital to consider the social impact.

Companies have a duty of responsibility here, but most are not doing enough to address the social consequences of their net zero transition. Less than half have conducted robust assessments of job displacement, consumer costs and the sustainability of local infrastructure.

The good news is that this is changing: nearly two-thirds (65%) plan to invest in managing the social implications of their climate transition – both as part of their company's growth strategy and in their duty as a responsible business.

To drive a fair and just transition, business leaders should work closely with governments, non-governmental organisations and civil society to ensure that they bring local communities along with them on the journey to net zero.

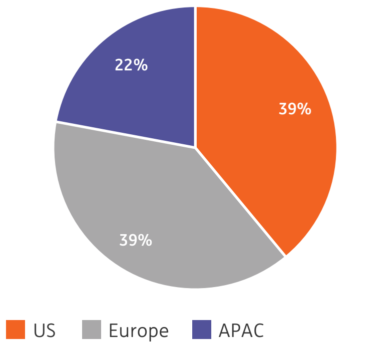
About the survey

We partnered with FT Longitude to survey 450 senior executives across sectors in the US, Europe and APAC to understand the milestones they are working towards to make their companies more sustainable, and the challenges – or 'jobs to be done' – that are keeping them awake at night.

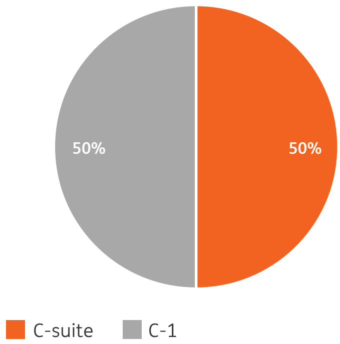
Disclaimer

The views and opinions expressed in this article are those of the participants of the survey and do not necessarily reflect the views or opinions of ING.

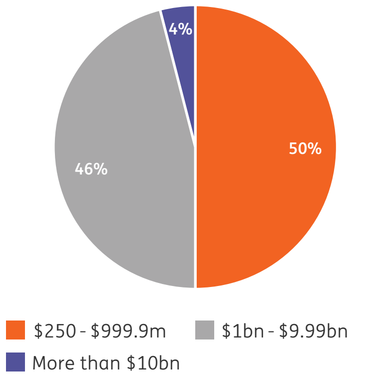
In which region is your job based?



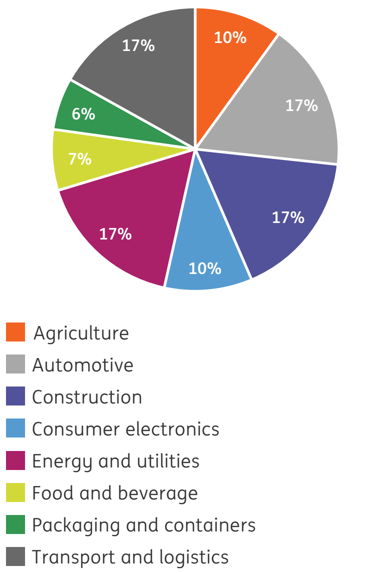
What is your job title, or nearest equivalant?



What was your company's global revenue for the last financial year?



In which of the following sectors does your organisation operate?



In which country is your job based?