ENGIE Impact

Global Executive Survey

Known Gaps and Blind Spots in Corporate Sustainability

Contents

Global Executive Survey

Known Gaps and Blind Spots in Corporate Sustainability

The speed and scale of corporate climate action is undoubtedly accelerating. And achieving these ambitions will require a wholly different approach. One that will require leaders to rethink governance models, capital allocation planning and organizational design. This transformation is complex, but successful early movers reveal key learnings to help others in the execution of their sustainability strategies.

To better understand the key sustainability priorities, approaches, barriers and investments of leading multinationals, ENGIE Impact surveyed 200 global executives, spanning 17 countries, whose businesses exceed $1B in annual revenue or 10,000 employees. The survey included a broad cross-section of executive functions chartered with successful sustainability transformation of their organizations, from finance to operations to marketing to the board.

In summary, the results demonstrate that while executives place increasing importance on sustainability and view it as a business imperative, results have been mixed, in large part due to struggles to incorporate best practices that lead to success – some of which are well understood, some of which are less apparent to those trying to drive initiatives forward.

Executives see sustainability as an increasing priority in the next five years.

> **While only 45%** see sustainability as a high or top priority today, **75% believe it will be in five years.**
>
> **Over 75% believe** that excellent execution of a leading sustainability strategy will provide a competitive advantage

Despite widespread awareness of the importance of sustainability, there is uneven understanding of how to act at the scale of ambition.

> **Less than 30%** believe their sustainability initiatives have been successful.

In our findings, we saw stark differences in those that reported success in their sustainability efforts, and those who struggled to execute their sustainability plans. For more information about our methodology, reference Appendix A.

Companies that have failed to gain traction within their sustainability initiatives make common mistakes in how they build their business case, extend their reach through their value chain and finance their initiatives.

Companies that have seen early success in their sustainability initiatives have invested in a stronger understanding of risk and opportunity, which in turn has driven immediate action. Those that have invested more in the tools to identify and quantifying opportunities have moved quicker, as, armed with data, it becomes clearer that action cannot wait.

Within the following report, we'll explore these divides more clearly, through the lens of three critical sustainability execution levers: **Managing Unknowns, Engaging Suppliers** and **Redefining Finance**. For each section, we have highlighted Known Gaps, where leaders have successfully carved out best practices that others should follow, and Blind Spots, where organizations across the board could benefit from doing more. These lessons offer organizations at any stage clear next steps to execute the leading strategies they value.

Managing Unknowns

How can executives lead through uncertainty, quantify unknowns and differentiate with innovation?

Engaging Suppliers

How can organizations extend their impact through deep partnership with core suppliers?

Redefining Finance

How can organizations allocate capital to finance initiatives at the speed and scale of their ambition?

Managing Unknowns

Planning in the face of uncertainty

> “Navigating the uncertainty of when technology will be available, when regulations will either level the playing field or tilt it in sustainability’s favor. That’s challenging.”
>
> Brooks Preston
> Managing Director, Macquarie Group

Managing Unknowns

Evolving regulations, emerging technology, new business models, demanding stakeholders, unpredictable extreme weather events. The path to sustainability transformation is far from straightforward, and leaders must face a myriad of deeply complex and often unknowable scenarios. How must leaders prepare in the face of uncertainty?

Executives must strike the right balance of analysis and leadership. Leaders must understand the potential risks and opportunities associated to climate change, and then invest in the tools and the people that will help the organization move forward with clear intent.

Successful organizations have managed to build accountability and arm their teams to make smart decisions fueled by intelligence, analytics and innovation. We'll explore several known gaps and blind spots as they relate to executives' perceptions on leadership, decision making and innovation.

> "The way to get sustainability embedded is to set a broad set of actionable standards, invest in culture change, and empower cross-functional teams with tools and resources."
>
> Brooks Preston
> Managing Director, Macquarie Group

Leadership

Corporate climate action begins at the top. To advance progress across an organization, leaders must confront uncertainty with bold ambition, strategic alignment and cascading direction and resourcing. In our research: successful companies have invested wisely in building accountability for sustainability initiatives across their organization, aligning sustainability to advance business objectives and building clear performance metrics that foster success.

Known Gaps

Ambition and Engagement

Corporations across the world have continually made headlines by announcing bold new goals over the last decade. As leading companies achieve their initial milestones and more companies introduce inaugural goals, leaders have doubled down on their commitments. They have recognized the importance of addressing emissions spanning their full value chain, embraced carbon neutrality or even climate positive as a long term aspiration, and accelerated their timelines to achieve the pace set by climate science.

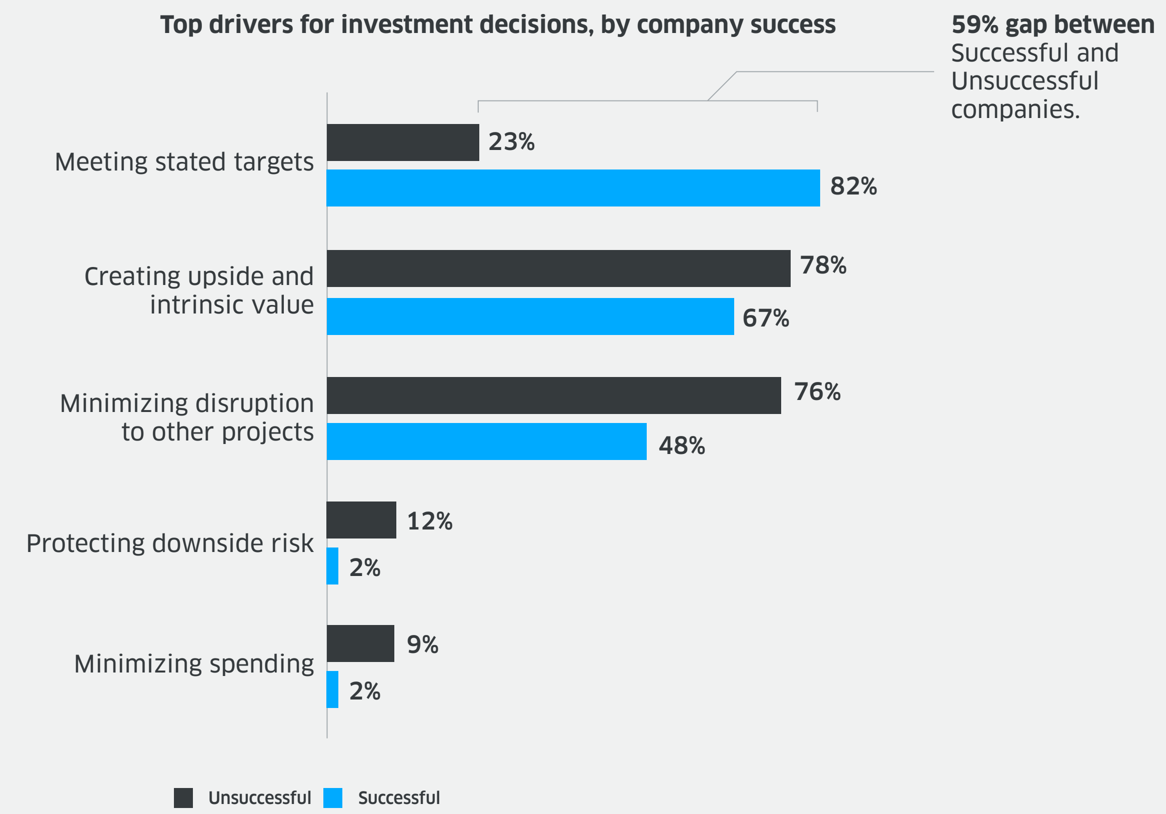
To rally an organization behind sustainability transformation of this scale, leaders must articulate a compelling vision of the future and embed it into the purpose of the company. This will require them to be explicit on the case for change, painting a future reality though the journey is not yet entirely clear. Successfully leading an organization through these unknowns will require leaders to accept and navigate a certain level of ambiguity, possibly increasing the risk appetite and tolerance of the organizations. As they lead the organization to define and execute on that strategy, it will be critical to engage employees and business partners on the shared end goal. Surveyed executives confirmed this need. Executives that reported successful sustainability programs were far more likely to align resourcing to meet stated targets (Figure 1).

> "We have sustainability KPIs in senior leaders' scorecards, which ladder up to the business scorecards and trickle down to all the relevant functions and teams, ensuring no disparity between the leadership team's mission and the local team input."
>
> Michael Alexander,
> Global Head of Environment, Diageo

Figure 1

82%

Of successful companies tie investment decisions to meeting their targets.



Note: Q14. When assessing sustainability project investment opportunities, please rank how each of the following Is prioritized by your leadership's decision-making process. (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Strategic Alignment
Executives that have aligned sustainability initiatives to the company's business strategy were far more likely to report the successful execution of their programs (Figure 2). **Leaders can look to integrate sustainability in several ways:**

- **Recognize the full business value of sustainability**
A sustainability strategy can drive revenue, minimize exposure to risk, drive down costs and drive less tangible value like reputation and employee retention. Organizations that assess the full value of sustainability investment see greater success in accelerating progress. Later in the report, see how to properly incorporate this value into investment criteria and key financial metrics.
- **Conduct a strategic business review**
Use a sustainability lens to assess the long-term viability and performance of the corporate portfolio and consider structural changes in line of the revised vision and purpose. Adapt business and operating models to be more resilient to climate change and/or capture value of sustainability-driven business opportunities. For instance by reviewing target customers, product & service portfolios, value propositions, sales & service channels, sourcing models, supply chains, etc.
- **Embed sustainability within the organization**
In governance structures, key processes, talent development, training and reporting. Be explicit on the capabilities to develop in-house or those to source externally. Look beyond your own walls by establishing coalitions and partnerships today while mapping and navigating emerging ecosystems.

> **"Sustainability is too broad, too multi-faceted, too dynamic to expect any one expert to do it. You need to get it embedded in the culture and delegate not only responsibility to get it done but foster the creativity to figure out how to get it done."**
>
> Brooks Preston
> Managing Director, Macquarie Group

Blind Spots

Governance
Create the conditions that enable all parts of the business to make progress on realizing the ambition. Leaders should focus on establishing effective governance models, adopting shared metrics and empowering management.

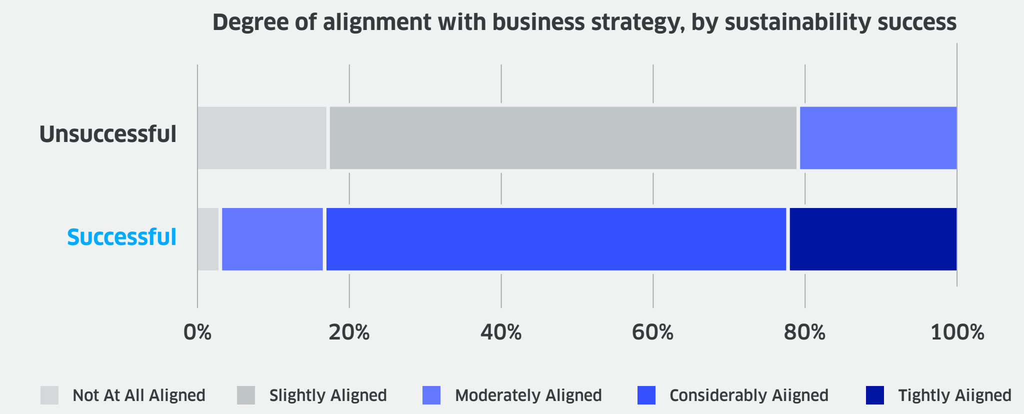
- **Executive-driven performance management**
Our survey shows that few executive team members have significant oversight of sustainability goals and progress, with 20% of executives reporting no C-level oversight (See Figure 16). Unsurprisingly, those with no C-level oversight were significantly less likely to report success. Leaders should go beyond oversight alone, tightly aligning performance metrics and executive compensation to key sustainability outcomes. Establishing clear metrics will lead to greater sustainability literacy across the executive team which will trickle down across the organization to affect greater change.
- **Empowerment**
Leaders should create an effective framework that enables management to make autonomous decisions that advance the corporate ambition. This entails cascading down the corporate targets to function- and entity-level targets. Leaders should also give additional guidelines such as incremental OPEX constraints, holistic investment criteria, and asset policies. These set clear boundaries for management to autonomously make optimal trade-offs within their respective accountability domain.
- **Programmatic approach**
Ambitious targets will require companies to transform their operations at an accelerated pace and scale, demanding a highly structured approach to execution. Leaders will need to design program management infrastructure that facilitates resource allocation and mobilization, leverages governance structures to align corporate and local stakeholders, and focuses execution on the set ambition and desired outcome.

Key Actions

1. **Articulate a compelling, bold ambition**
Be decisive in establishing goals that sit just outside of the known. Commit to near-term milestones that spur immediate action. Build this ambition with a strong understanding of the risks at play and the resources on the line.
2. **Integrate sustainability into the core business strategy**
Embed sustainability as a core lens through which all business operates. Conduct a strategic evaluation of your portfolio to ensure core business assets, models and partners will ensure resilient and sustainable growth.
3. **Create the conditions for success**
Empower the organization to act with broad accountability, defined objectives and dedicated resources to enable all parts of the organization to advance progress collectively.

Figure 2

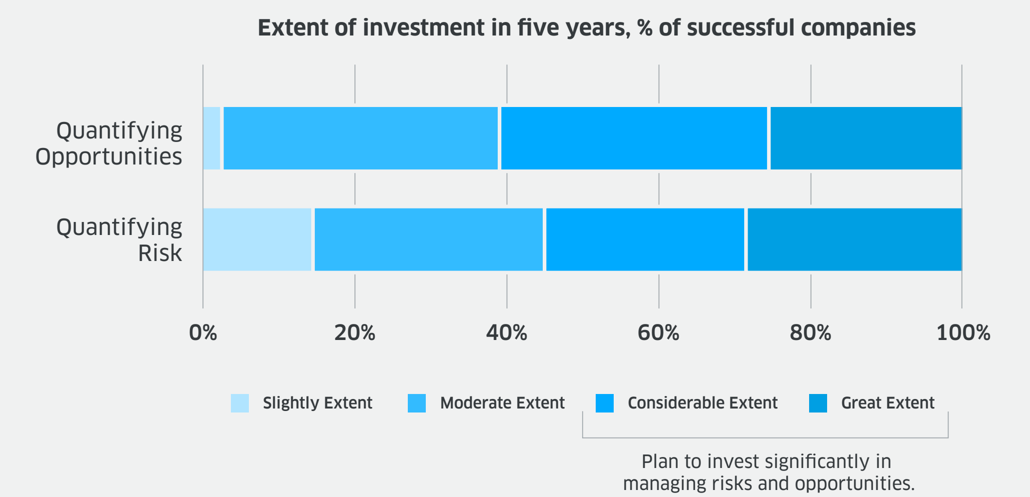
Successful companies were far more likely to report alignment of sustainability and business strategy.



Note: Q10. To what extent are sustainability objectives aligned with business strategy? (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 3

Over 50% of successful companies plan to invest significantly in managing risks and opportunities.



Note: Q12. To what extent is your company quantifying the potential business risks of climate change today and to what extent do you believe your company will be doing so in five years? (n=200) Q13. To what extent is your company quantifying the potential business opportunities of climate change today and to what extent do you believe your company will be doing so in five years? (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Decision Making

Under most circumstances, when leaders see a major economic or technological force having a significant impact on their revenues in the next five years, they conduct a series of rigorous analyses to better understand and prepare for the imminent changes. Yet, when it comes to climate change, these same practices have not been evenly applied. Our survey results show that, while leaders see value in better understanding climate risks and opportunities, they are missing key behaviors that are critical to smart decision making.

Known Gaps

Respondents across all groups see increasing value in quantifying both the risks and opportunities associated with climate change, with over 50% of successful companies planning to invest heavily in doing so in the next five years. (Figure 3) In fact, organizations are more likely to prioritize decisions based on the upside that climate action can bring.

To that end, leading companies have already begun to invest deeply in scenario analysis, and those less mature companies, while not investing significantly in scenario analysis today, are indeed prioritizing it in the near term.

The question now becomes: How sophisticated are these analyses? Are they rigorous enough to inform the right plan of action?

Blind spots

Our survey shows a concerning, but not surprising, lack of understanding of the financial impact of these sustainability factors. Though there's broad interest in scenario analysis, **only 11% of companies have introduced costs for unpredictable variables, a critical factor used to refine the inputs for a rigorous analysis (Figure 4).** Furthermore, those early in their journey show a significant blind spot in their slow adoption of digital tools (Figure 5). Tools can be an essential accelerator, providing more precise information about market, economic, or site conditions that play a significant role in well-designed roadmaps.

Key Actions

Sustainability presents a range of variables (e.g. costs of emerging technology, regulation, commodity and energy costs) and outputs (e.g. how will climate action impact share price, customer growth, loan interest rates, talent acquisition) that factor into investment decisions. The potential scenarios are complex and dynamic. To make decisions in the face of uncertainty, leaders must find ways to narrow the range of possibilities into something more discernible and tangible. With refined assumptions and models, companies can better position themselves to capture upside and protect from downside risk.

1. **Narrow the inputs**
Invest in the resources to put key bounds around sustainability variables and outcomes. For example, identify the exact sites that will be impacted by a rising carbon price, estimate the range of energy cost fluctuation, or the time by which emerging fuels will become viable. Improving the quality of the inputs is essential to the validity of your resulting analyses. Emerging tools make it easier to calculate energy and technology costs, map risks, and understand unique site conditions.

2. **Streamline the scenarios**
A narrowed set of inputs can be fed into several rigorous and internally consistent scenarios. Today, there are a range of digital tools that can accelerate this process, allowing for sensitivity analyses and scenarios analyses with precision and scale previously unprecedented.

3. **Create a feedback loop**
As organizations deploy new technology or invest in new measures, tracking outcomes and feeding them back into assumptions is critical to the continued refinement of unknown factors.

This process is not an easy one it requires expertise, good data and advanced tools but the potential costs of smart decision making is far outweighed by the potential opportunity at stake.

Figure 4

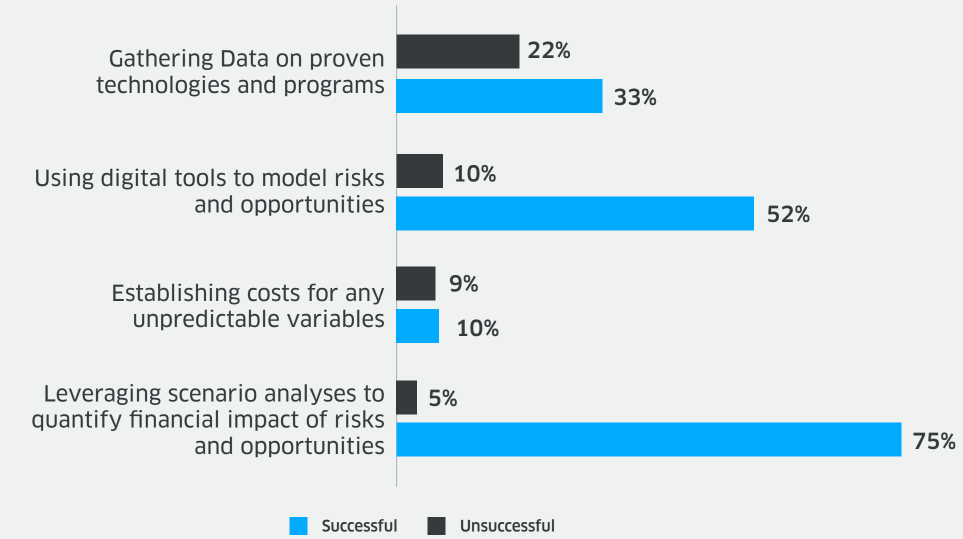
Companies are not investing in advanced measures that can support proper quantification of risks.

Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 5

Successful companies are five times more likely to use digital tools than unsuccessful companies.

Today, companies that are early in their sustainability journey report relying on 'proven technologies and programs' more than any other listed measure. Successful companies go beyond proven practices, incorporating digital tools and scenario analysis to inform decision-making.



Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200) Q9. Which individuals/titles have responsibility for developing and monitoring sustainability goals at your company? Select all that apply. (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Innovation

Disruptive companies can seize competitive advantage by moving into unchartered territory. Whether transforming existing operations to dramatically reduce emissions or creating new, sustainable categories to offer to customers – companies can unlock premium price points while dramatically reducing costs and enhancing customer loyalty. Our research shows that driving this upside value was cited as the single largest driver for investment decisions (Figure 6). So how are leaders creating the conditions for successful innovation, and where must they go further?

> **Sustainable brands, by and large, get a premium over other product brands.**
>
> **Prakash Arunkundrum**
> **Head of Operations, Logitech**

In reviewing the differences between executives that reported success in executing sustainability strategies and those that did not, our research showed a stark divide in the approach to innovation. Successful companies had focused on meaningfully integrating sustainability into innovation practices, fostering a culture in which sustainable innovation thrived and investing to elevate great ideas.

Known Gaps

Foster employee-driven open engagement
'Green teams' – groups of employee volunteers charged with advancing sustainability initiatives – were some of the earliest manifestations of corporate sustainability. As sustainability programs have matured, ground-up employee initiatives remain a critical lever in driving performance, as leading companies have now found ways to formalize, fund and execute on the ideas of passionate employees at scale.

> **Success is not a central team, agitating and trying to do things. It's about how you get the might of a company behind an issue.**
>
> **Richard Marsh**
> **Director of Insights and Reporting, BT Group**

Richard Marsh, who leads sustainability reporting at BT Group, a leading telecommunications firm with headquarters in London, highlighted the impact of colleagues across the business getting together on key environmental topics. Groups have formed to tackle areas such as carbon and more recently to look at how to remove plastics from the company's operations. Passionate BT employees have been central to helping BT Group move forward as a business, with direct impact on the development and execution of policies and shared targets on climate.

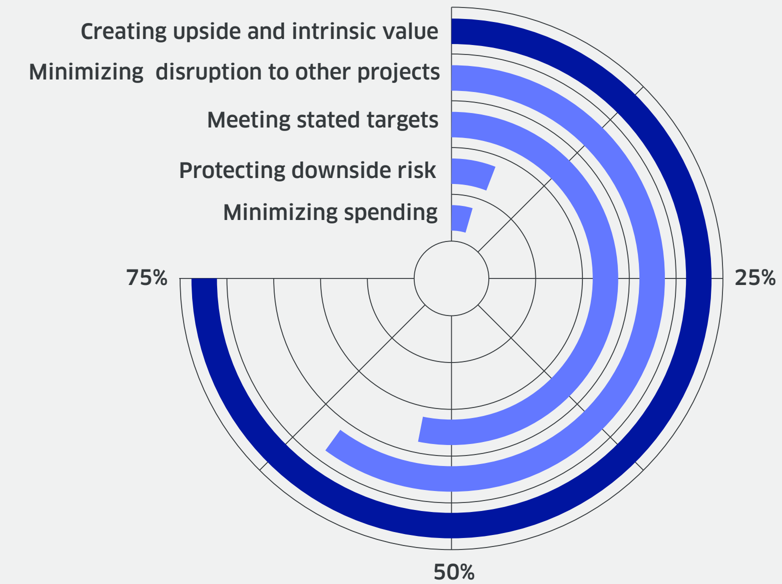
Launch sustainability-marketed products and services
In the past decade, research has shown an increasing demand for sustainable products, coupled with a willingness to pay a premium price. Many companies have responded by introducing a range of 'eco-friendly' 'recycled material' or 'carbon-neutral' products. Yet, as customers get savvier, they have raised questions regarding the legitimacy of these claims.

> **Internally pervasive sustainability is key to our success. It's not the sustainability team in Logitech that's off trying to do something, but everyone in the operations – from design to marketing. Sustainability is just a core tenet of what we do.**
>
> **Prakash Arunkundrum**
> **Head of Operations, Logitech**

Leading companies are boldly moving to provide more transparency. As we heard from Prakash Arunkundrum, Head of Operations at Logitech, customers had no way of understanding the carbon that came from the electronics products they purchased. Arunkundrum said "We invested in the idea of carbon transparency, putting carbon logos on our packaging and our website that report the amount of carbon in every product. We did this because it's the right thing to do." For Logitech, investing in carbon transparency not only empowered and educated consumers, but also drove change within the industry. By using a shared metric, Logitech saw the ability to accelerate carbon reduction across a complex value chain from suppliers to retailers.

Figure 6

75% of executives listed creating upside and intrinsic value as a top driver for sustainability investment decisions



Note: Q14. When assessing sustainability project investment opportunities, please rank how each of the following Is prioritized by your leadership's decision-making process. (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Blind Spots

While many companies have begun to introduce new products and activate employees, our research highlighted two innovation blind spots that remained: few companies have invested in a full lifecycle approach to product development and only a quarter of respondents are actively incorporating sustainability into innovation budgets.

> **"Designing through the full lifecycle served as a powerful tool to galvanize our activities and ladder up our environmental sustainability work."**
>
> Prakash Arunkundrum, Logitech

Logitech has been a champion of considering the full lifecycle of product design using the Cradle to Cradle standards, and recently used this framing to take their gaming products carbon neutral. Arunkundrum says this lens allowed them to see past conventional assumptions to consider the full implications related to packaging, product design and user experience. For example, removing a piece of plastic packaging might initially seem beneficial, but if it causes a product to be damaged in transit, leading a customer to return the product, the whole lifecycle could be disrupted, driving greater emissions and a dissatisfied customer. After iteration, the company might invest in a higher cost paper-based packaging, which, though a slight premium, proved benefits when considering the whole life cycle.

Lastly, organizations must allocate funding to tackle some of the trickiest sustainability issues (Figure 7). While it's important to incorporate the lens of sustainability across general innovation projects, some require dedicated focus and funding. This funding could come in the form of allocating resourcing to tackle a specific barrier, partnering with outside experts, or investing in your own research to find new ways to drive sustainable value. These research investments could range from simply dedicating a portion of R&D budgets to sustainable products and services to more sophisticated approaches such as establishing a corporate venture fund focused on decarbonization or establishing incubators or accelerators to explore new sustainability-focused business models.

Key Actions

To capitalize on the upside value, innovation is critical. Organizations must:

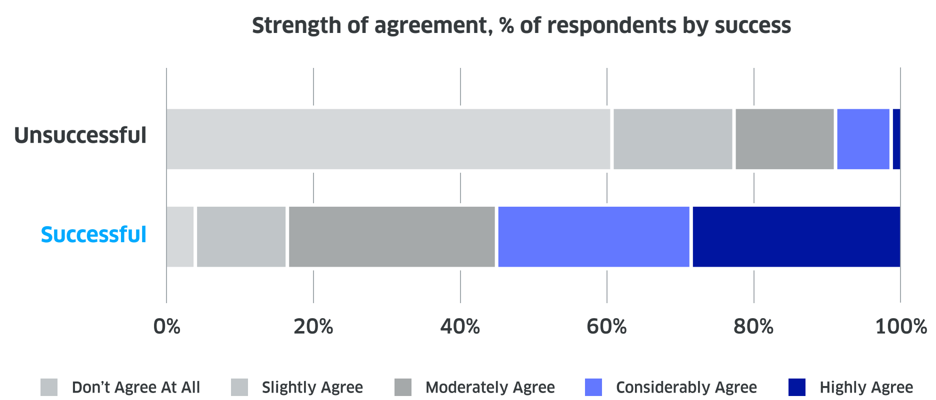
1. **Build structured employee engagement programs** Foster innovation on focused areas that drive the greatest material impact to the corporation. Establish shared KPIs and structured teams to ensure great ideas are recognized and activated.

2. **Look holistically at the full lifecycle** Steer clear of shortcuts that make superficial or short-term gains. Whether considering the design of a product or the full costs of an asset throughout its lifetime, assessing the full implications of a change through systems-thinking can trigger innovative ideas to unlock more comprehensive outcomes.

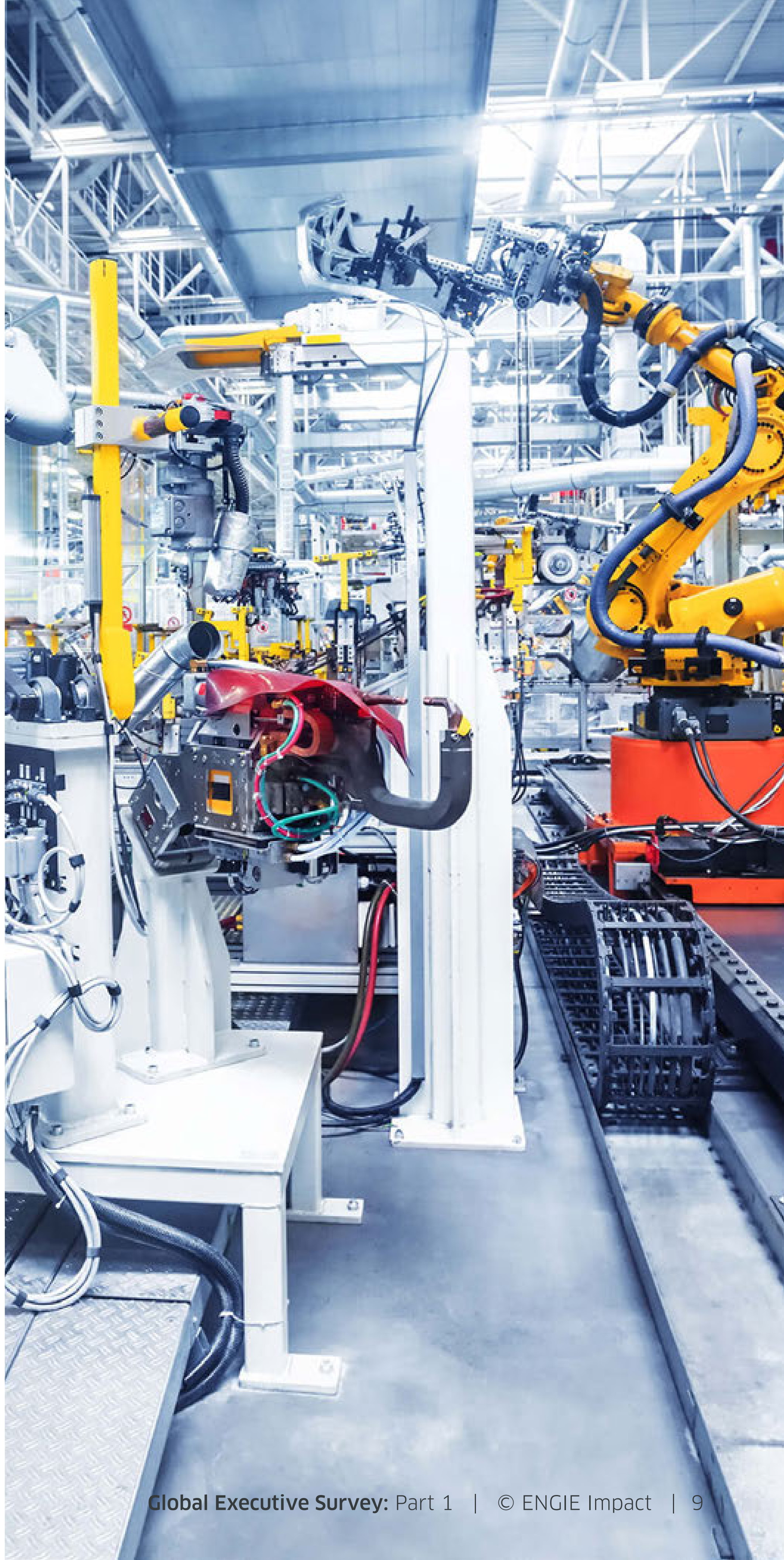
3. **Allocate budget to tackle the greatest, company-specific challenges.** Carve out funding for initiatives that pose uniquely challenging but transformative opportunities.

Figure 7

Successful organizations were far more likely to allocate R&D budget for sustainability efforts.



Note: Q11. Please rate your level of agreement with the following statements describing your company's approach to sustainability projects. (top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey



Engaging Suppliers

Extend climate action beyond your walls

> **The relationships we have with partners have unlocked a much bigger benefit than we could achieve alone.**
>
> Richard Marsh,
> Director of Reporting and Insights, BT Group

Engaging Suppliers

In recent years, increases in supply chain disruption coupled with growing demands for transparency from investors, consumers and regulators has put pressure on businesses to reassess their supply chains. Companies must now focus on increasing resilience and lowering carbon equivalent emissions in addition to managing historical value-drivers like cost, quality and time to market.

While supplier engagement is a recognized good practice to drive innovation and sustainability, for many companies, it stays within the realm of compliance and basic table stakes. Sustainability requirements are often integrated into minimum standards for suppliers or supplier codes of conduct, which lay out requirements for human rights, labor standards, governance and environment. However, the sheer complexity and scale of climate change will demand that standards go further than minimum requirements. This transformation can be costly and will require expertise, a burden often placed on suppliers without direct support from buyers.

> “Scale can be a significant barrier to supplier engagement. Most suppliers have many customers. If only one customer is asking for something, the suppliers are less interested in investing.”
>
> **Prakash Arunkundrum**
> **Head of Operations, Logitech**

Our survey shows that while companies recognize the importance of supplier decarbonization, they are still counting on measures driven by compliance; asking suppliers to set science-based targets and requiring the purchase of renewable energy and energy efficiency were the most popular ways to engage the suppliers. However, companies are not focusing on incentivizing or partnering with suppliers to meet these requirements. This is a missed opportunity to strengthen relationships with strategic, trusted partners. To accelerate decarbonization and build a more resilient system, companies will need to find ways to couple requirements with measures that enable successful transformation; such as facilitating access to finance, helping identify short-term investments and centralizing resources and expertise.

Known Gaps

Supplier Implementation of Energy Efficiency Measures
Encouraging suppliers to drive resource efficiency is low-hanging fruit in the realm of sustainability. More efficient supplier operations offer potential cost-savings for buyers, leading to efficiency having long been integrated into supplier codes of conduct and expectations. This value is seen by certain industries more than others. The executives of companies with deep experience managing energy–such as manufacturing, heavy industrial, and materials processing–were two to three times more likely than other industry groups to have encouraged or required suppliers to adopt energy efficiency measures today. (Figure 8)

> “Sustainability is often an opportunity to get closer to suppliers. The projects where we worked closely together have reaped benefits in improving our strategic relations with suppliers.”
>
> **Michael Alexander**
> **Global Head of Environment**

In ENGIE Impact's experience, if buyers can directly bring their own expertise to suppliers, by training them on energy efficiency best practices, suppliers can rapidly unlock cost savings with entirely self-funded projects that require no upfront capital from suppliers. These trainings can even be conducted on virtual platforms to accelerate the adoption of best practices, driving both cost savings and emissions reduction at speed and scale.

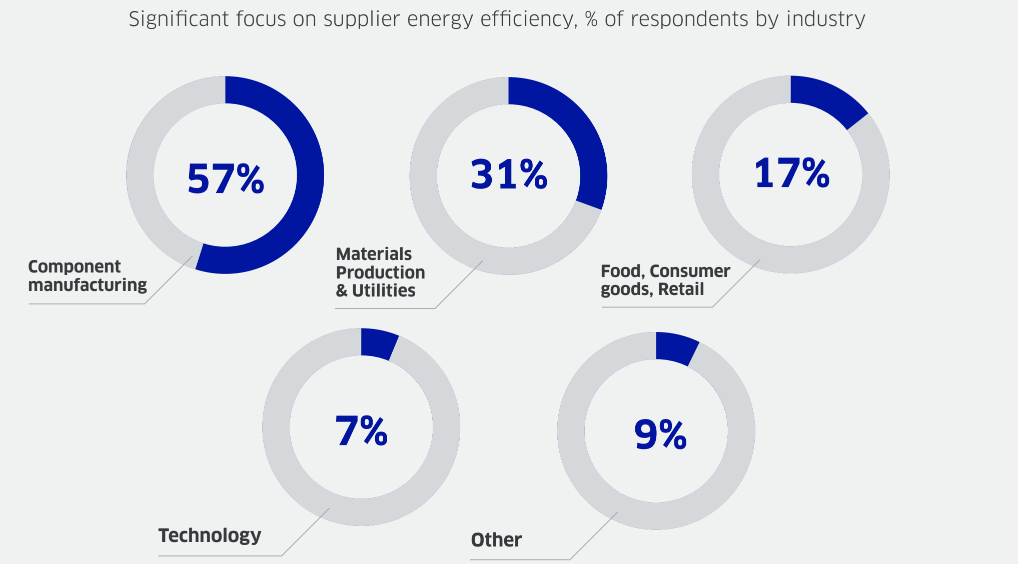
Supplier Transition to Renewables
Companies can encourage or set explicit requirements for their suppliers to transition to renewable energy. This is often seen as a relatively straight-forward request for suppliers. It is a well-understood decarbonization measure that most mature companies have already begun to implement themselves, making it a natural next step to require of their supply chain (Figure 9).

> “Renewable electricity has been a powerful vehicle to help unlock supplier engagement.”
>
> **Prakash Arunkundrum**
> **Head of Operations, Logitech**

Our research showed that many of the companies early in their journey had not yet adopted this measure. This underpins a common misstep; many organizations plan to first focus on transitioning to renewable energy within their own operations before requiring it of suppliers. In reality, these activities can be done in tandem and may face diminishing barriers, as their suppliers have likely already received similar requirements from other customers.

Figure 8

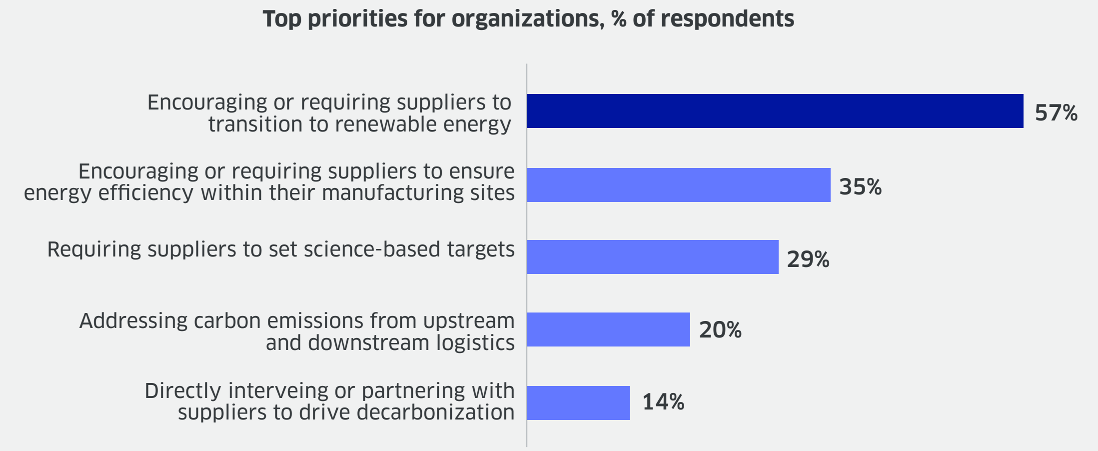
Energy-intensive industries were more likely to engage suppliers to drive energy efficiency.



Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? Energy efficiency (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 9

Encouraging suppliers to transition to renewable energy was ranked the top priority supplier engagement measure.



Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Blind Spots

Logistics Decarbonization
The movement of goods accounts for a significant percentage of emissions worldwide. While logistics offers a powerful lever for decarbonization, few executives report a significant focus here both to date and over the next five years (Figure 10). It's not easy. The complexity of transport networks and the rapid pace of technological change makes it challenging to drive action. Yet, new digital tools and a constant decline in the cost of technology have brought solutions like route optimization, electric fleets, low-carbon ocean freight and advanced e-mobility within reach. In certain geographies, companies can access new funds to grease the wheels of this transition. Companies should start by developing a solid understanding of their logistics profile and look for partnerships with transport suppliers and others to shape the future of transport networks and have this same discussion with upstream suppliers that may have a large transport profile of their own.

> **"To help us reach net-zero emissions by 2045, we're working with our suppliers to help them substantially reduce their carbon emissions by 2030. Only by working together, will we be able to curb emissions and help pave the way for others to follow."**
>
> Richard Marsh
> Director of Reporting and Insights, BT Group

Direct Intervention and Partnership to Drive Results
One of the most significant barriers to supplier decarbonization is the simple fact that suppliers often don't have the incentive or expertise to make the necessary changes. (Figure 11) With the shared objectives of decarbonization, companies must ask themselves: in what unique ways can we incentivize action?

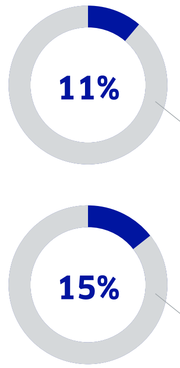
We spoke to the head of global engineering, energy and environment at a leading financial institution, who shared that they had recently introduced incentives for exceptional supplier sustainability performance. If suppliers successfully exceeded the targets set by the financial institution, they would unlock an internal gain share, whether in the form of a dollar gain or additional fees.

Michael Alexander, global head of environment at Diageo, a global leader in beverage alcohol, cited the importance of prioritizing supplier partnerships. Diageo has co-invested with strategic suppliers in key sustainability-focused projects that benefit both the supplier and Diageo. Alexander also cited the risk of reporting fatigue suppliers face, having to respond to a myriad of distinct buyer requirements. To be a good partner, Diageo opted, for example, to participate in the CDP supply chain program, which offers one common portal for supplier information.

Whether it be co-investing, offering performance incentives, or joining buyer groups to drive collective action, companies seeking to drive transformative change in their supply chains must prepare to invest and collaborate in order to reap the rewards.

> **"The relationships we have with partners have unlocked a much bigger benefit than we could achieve alone. Networks, partnerships and alliances can form the right enabling infrastructure to create the environment that we need in the future to be successful."**
>
> Richard Marsh
> Director of Reporting and Insights, BT Group

Figure 10



Only 11%
Are actively addressing **upstream and downstream logistics.**

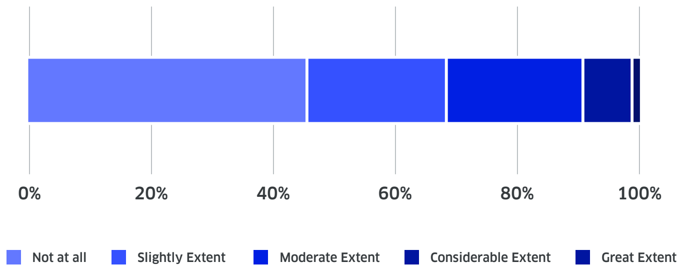
Only 15%
See it as a **priority in five years.**

Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Note: Q16. Which of these tools, if any, will your company prioritize to meet sustainability objectives in five years? Select all that apply. (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 11

60%
Of respondents have **only minimally intervened or partnered with suppliers to drive decarbonization.**

Organizations that have directly partnered or intervened with suppliers to drivedecarbonization
Degree of measure adoption, %



Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Key Actions

As corporations continue to advance their own efforts to decarbonize, their role in driving suppliers to decarbonize becomes increasingly critical. By establishing clear requirements, along with direct partnership and incentives, companies can accelerate their suppliers'—and therefore their own—decarbonization. To help accelerate action and strengthen supplier relationships, companies should look to go beyond reporting requirements, lending their expertise, joining coalitions that drive collective action or directly funding initiatives with strategic suppliers. Of course, companies will need to focus on the areas with the greatest impact. **A recent ENGIE Impact analysis identified the following six levers that can drive the greatest decarbonization efforts:**

- **Partner deeply with first-tier strategic suppliers**
- **Focus on upstream raw materials projects**
- **Decarbonize logistics with emerging technology and optimized systems**
- **Build supplier competencies in resource efficiency**
- **Facilitate renewables transition with digital tools and buyer alliances**
- **Support the development of supplier science-based targets**

Read more on how to activate these key levers.

Redefining Finance

Engineer investments that unlock accelerated progress

> “Finance is a barrier to pushing innovation, but if well-used, can be a lever to progress the organization to access benefits that might be idle, otherwise.”

Dr Rob Brimblecombe, Monash University

Redefining Finance

The finance department plays a critical role in sustainability transformation, serving as a gatekeeper that can either accelerate or hinder the execution of critical projects.

More than ever, executives see the direct revenue impact of climate action (Figure 12). As they rise to the challenge with increasingly ambitious goals, traditional financial structures must change adapt to meet the moment. What impactful areas have been prioritized by successful companies, and where do the blind spots remain?

Known Gaps

Updated Investment Criteria
Historically, companies sought carbon reductions opportunistically, for projects that would meet strict investment hurdles, such as payback periods of 24 months or less. By reducing energy use along with energy spend, these discrete projects offered short-term returns on investments, often offsetting the increased cost of equipment with lower total costs of ownership. Over the years, the companies' ambitions outstripped these low-hanging fruit. As a result, the projects necessary to achieve increasingly ambitious goals fall outside of traditional, short-term payback criteria, requiring a broader, longer-term lens not accounted for in previous models.

> **“If we see the opportunity to grow our brands as a result of corporate sustainability performance, it may add weight to the business case and could accelerate the program.”**
>
> Michael Alexander
> Global Head of Environment, Diageo

Today, there is growing focus on updating these investment criteria to better account for the full picture of climate risk and opportunity. Several frameworks have emerged that support more effective risk accounting, which provide much needed corporate guidance for quantify the values that are gained by an asset investment approach anchored in a sustainability mindset.

A portfolio-wide lens to project investment
Even with a narrower set of investment criteria, organizations can achieve deeper results by using a portfolio-wide approach that bundles sustainability projects with short and longer payback periods, crowding in initiatives that might not make the cut on a stand-alone basis.

For example, instead of only pursing quick payback projects, companies can measure the blended payback of a portfolio of projects at a single site, across a region, or even across global operations, unlocking far deeper carbon and cost savings. If they had applied a strict payback threshold, projects with a higher payback period—but more far-reaching decarbonization potential—would have been left unfunded.

Successful companies, particularly those with extensive experience in evaluating large asset investments, like heavy equipment manufacturing and materials processing, have already made significant progress in this realm (Figure 13).

> **“Any investor is a risk manager as well as a value creator. Every company we invest in presents sustainability risks and opportunities. We review them to ensure we are optimizing upside to create new lines of revenue or cost savings, while also mitigating risks.”**
>
> Brooks Preston
> Managing Director, Macquarie Group

Blind Spots

Third-Party Financing
Tackling ambitious sustainability projects requires capital. Doing so at speed and scale demands a lot of it. Even if the business case for these projects is solid, relying solely on internal funds can slow progress (Figures 14 and 15).

Furthermore, there are several cases in which internal funds may not be the best path forward. For many industries, the critical investments needed to decarbonize may be shared assets: (e.g. renewable power sources, storage, or infrastructure), or non-core assets that may be highly complex to design and manage. In these cases, third-party financing is a particularly relevant option allowing companies to secure low-risk sustainability results without upfront investment.

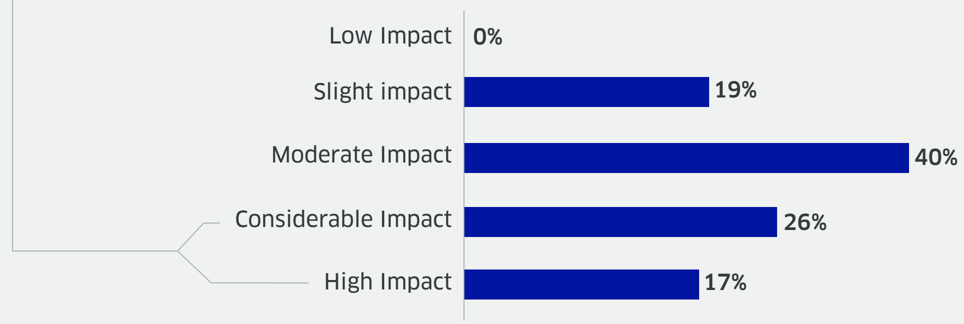
Third-party partnerships can offer more than just capital. In as-a-Service models, companies can partner with project developers that can help them offset risk and ensure specific outcomes. This is often a good fit for businesses looking to quickly decarbonize non-core operations.

Figure 12

Executives see sustainability having an increasingly significant impact on corporate revenues and profit.

43%
Of companies see sustainability having significant impact on revenue and profits over the next five years

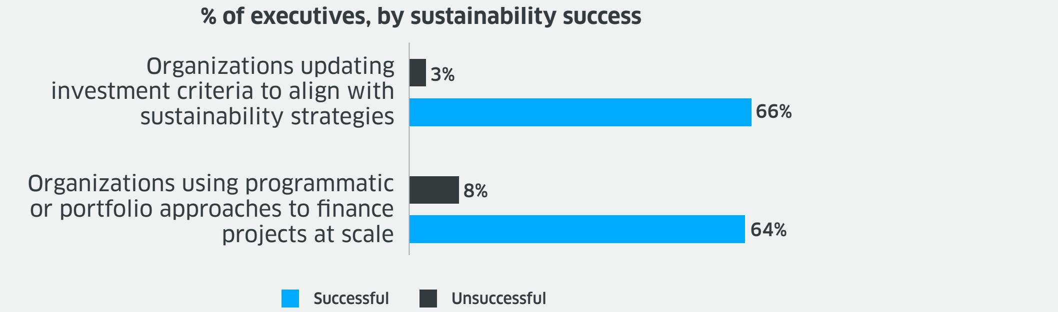
81%
Of successful companies see sustainability having significant impact on revenue and profits over the next five years



Note: Q24. How would you characterize the impact your company's sustainability strategy and program has had on corporate revenues and profit over the past year (prior to COVID-19) and over the next five years? (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 13

Executives leading successful sustainability programs have focused on internal funding strategies.



Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

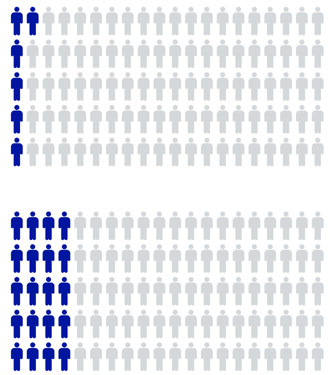
CFO Accountability
The CFOs involvement is crucial to properly align investment decisions to corporate sustainability strategy. Yet, our executives report a troubling insight: **only 4% of CFOs are playing a leading role in shaping and executing the company's strategy (Figure 16).**

According to our results, many executives do not see access to funding as a major barrier, a finding highly inconsistent with what we hear from those elsewhere in the organization. While executives may be aware of the wide range of available financing instruments, departments reporting into the CFO's office are restricted to make investments within the scope of the annual capital budgets allocated to them. This binary approach to financing—is capital available or not?—eliminates many projects that create both business and sustainability value.

CFOs set the tone and ambition for investments across the entire organization. A financial team that helps drive the shaping and execution of a sustainability strategy brings a more creative approach to funding that can unlock other additional benefits. For example, a CFO who sees herself as accountable for the company's sustainability success is more likely to see the benefit of sustainability to core business operations and products. This can open up the utilization of different finance instruments to fund an array of initiatives rather than focus narrowly on funding discrete projects. In turn, these instruments—such as Energy-as-a-Service and green bonds—can broaden a company's investor base and banking network.

It is also the responsibility of leadership to ensure investment criteria advance corporate sustainability ambitions. Although our respondents reflected progress in updating investment criteria, without the top-down guidance to account for all values that these projects deliver companies will struggle to affect the real change in mindsets needed to invest in the right behaviors.

Figure 14



6%

Of all respondents reported 'financing sustainability projects with third-party mechanisms (e.g. PPAs, aaS)' to a considerable or great extent

20%

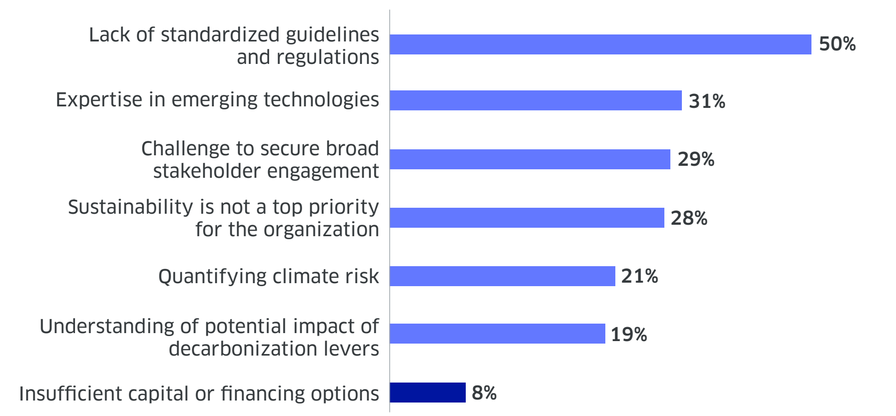
Reported the same as a priority in five years

Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Note: Q16. Which of these tools, if any, will your company prioritize to meet sustainability objectives in five years? Select all that apply. (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 15

Only 8%

Of all respondents insufficient capital or financing options as a barrier today.

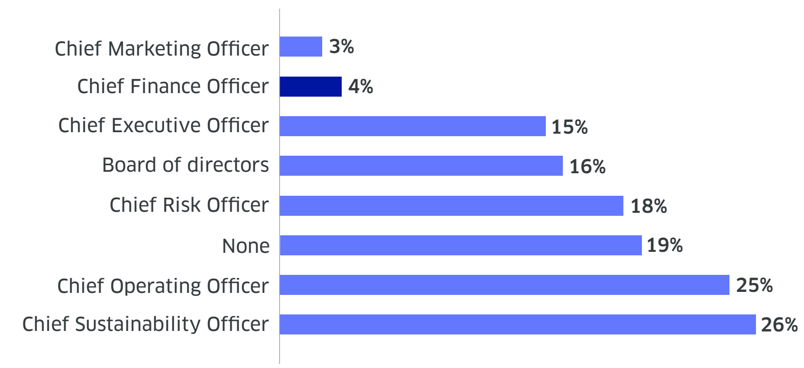


Note: Q15. To what extent is your company using each of the following tools to meet current sustainability objectives? (Top 2-box scores shown) (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Figure 16

Only 4%

Of respondents noted CFOs having responsibility for developing and monitoring sustainability goals.



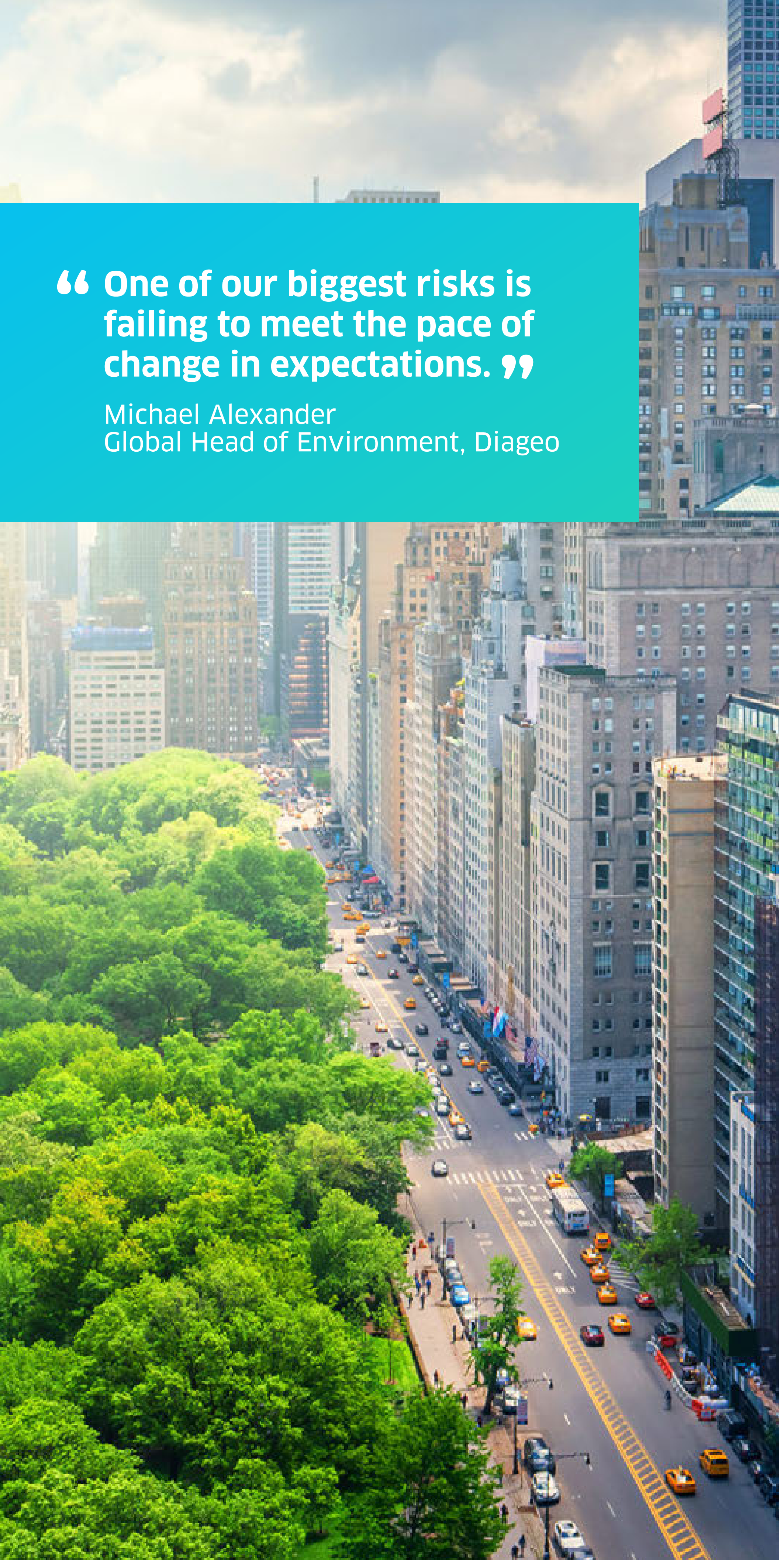
Note: Q9. Which individuals/titles have responsibility for developing and monitoring sustainability goals at your company? Select all that apply. (n=200)
Source: ENGIE Impact Sustainability Transformation Survey

Key Actions

1. **Build governance structures that align finance to sustainability objectives.** For any company with an ambitious goal, the CFO should be deeply integrated into the development and execution of the strategy.

2. **Broaden investment criteria and invest programmatically.** Bypass the restrictive limitations of quick paybacks by opening up investment criteria to better weigh the cost and carbon benefits of projects. Doing so will not only unlock deeper decarbonization but also reduce performance risk by considering investments on a portfolio basis.

3. **Accelerate efforts with third-party financing.** Consider the broad portfolio of investments: do you have the expertise internally to design and manage these assets? Are there significant benefits to owning the asset in the long-term? Explore third-party partners that can assume performance risk and accelerate deployment of capital on key decarbonization projects.



> “One of our biggest risks is failing to meet the pace of change in expectations.”
>
> Michael Alexander
> Global Head of Environment, Diageo

Conclusion

In the next few years, organizations with a sound and comprehensive strategy to execute their sustainability ambitions will both reap near-term value and create long-term market relevance and stability. The stakes have grown increasingly high, not only from an environmental standpoint, but from the increased pressure of investors, competitors, regulators and consumers. To make the sustainability transition successfully, leaders will need to rethink governance models, capital allocation planning, innovation practices and strategic partnerships.

And while the need to transform is as pressing as it is complex, those that move quickly can still capture the value at stake. As we showed in this report, the most valuable insights can be gained by analyzing the successes of those early movers who have already developed, implemented, and reaped the benefits of sustainability-driven business models.

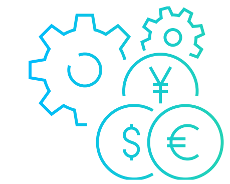
Taking meaningful climate action today will be crucial for organizations hoping to compete in the decades to come. Leaders in corporate sustainability have carved a path to success. By heeding these lessons, those that can execute intentional, coordinated strategies will accelerate progress to goals and position themselves to capture the full value of sustainability transformation.

Managing Unknowns

Cascading ambition from leadership, developing clear scenarios informed by a focused “realm of the possible,” and investing in innovation can improve preparedness and carve out a competitive advantage amidst the uncertainty of climate change.

Engaging Suppliers

Businesses should continue to require suppliers to invest in energy efficiency and the transition to renewable energy and they must expand their scope by looking to decarbonize emissions-intensive logistics. To accelerate their efforts, buying companies must co-invest and partner with strategic suppliers, strengthening supplier relationships and amplifying their own sustainability efforts.



Redefining Finance

Finance must be restructured to better accelerate project deployment and realized the full value at stake. Restructuring investment criteria, programmatic approaches to project finance and third-party partnerships to manage non-core assets are critical levers to program success.

Acknowledgements and Methodology

In partnership with Beresford Research, ENGIE Impact surveyed by telephone over 200 C-suite executives (including CEOs, CMOs, Chief Sustainability Officers, CFOs, COO, CIOs and senior technology decision makers) and direct reports with responsibility for sustainability decisions. Companies surveyed had revenues exceeding one billion dollars or at least 10,000 employees, and included respondents spanning 17 countries.

Deeper analysis of this data was based on a custom metric to assess 'successful' and 'unsuccessful' sustainability execution. This metric was compiled using a proprietary rating system relying on respondent answers to four questions which measured: self-reported success, ambition of sustainability targets, perceived performance compared to peers, and perceived value of successful execution.

ENGIE Impact Authors & Contributors

Brian Carey
Managing Director, Sustainability Solutions, Oakland

Brian has 20 years of strategy, operations, and M&A consulting experience across technology, utilities, and industrials. As PwC's US Cleantech Advisory Leader, he leveraged his clean energy, smart grid, and mobility expertise to serve Fortune 500 firms, utilities, and cleantech clients.

Ben Moens
Managing Director, Sustainability Solutions, Brussels

Ben has 17 years of experience in consulting multinational organizations on strategy, business transformation and performance improvement at Deloitte and Bain & Company. Ben led the Power & Utilities sector for Deloitte Consulting in Belgium, advising on strategy and transformation related to the energy transition.

Mike Kaplan
Chief Marketing Officer, Boston

Mike leads the company's marketing organization which creates market awareness of sustainability transformation and understanding of the company's offerings. He has nearly 20 years experience in business-to-business marketing across the technology and energy sectors, including with startups and large enterprises.

Nana Ayensu
Director. Sustainability Solutions, New York

Nana has over a decade of experience fusing technology, finance and business strategy. He brings deep knowledge of energy infrastructure investment strategy, corporate innovation and new ventures, and technoeconomic modeling for cleantech solutions.

Tara Norton
Director, Sustainability Solutions, Paris

Tara has more than 15 years of experience in sustainability, having worked in nonprofit and corporate environments transforming supply chains across industries into more socially and environmentally sustainable systems. She is an independent Board Director at SupplyShift.

Myriam Akhoun
Director, Sustainability Solutions, Singapore

Myriam has 10 years of experience in renewable energy. She started her career with ENGIE as a wind onshore business developer, then worked in the wind offshore industry in France. She relocated to India where she led the construction of ENGIE's largest solar plant.

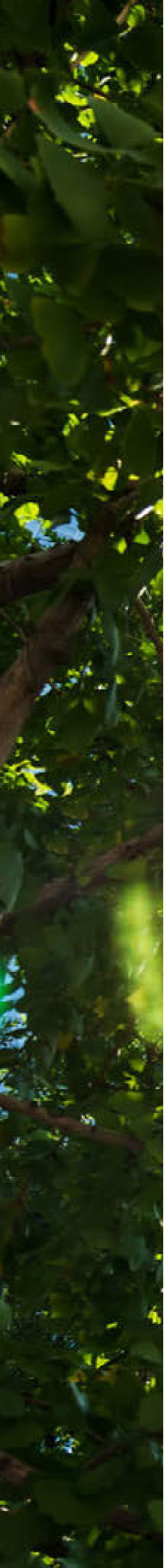
Jeff Waller
Head of Financing Solutions, New York

Jeff has over 15 years of finance experience, both in the private sector (as a renewable energy and infrastructure project finance banker) and in the NGO space (Principal of the Sustainable Finance practice at Rocky Mountain Institute).

Laura Humphrey
Senior Manager, Sustainability Solutions, New York

Laura has over a decade of experience leading programs and strategies to realize regional and organizational energy and environmental goals. She specializes in designing market transformation programs through a strong stakeholder lens.

The authors would like to thank the team that contributed to the research, writing, analysis, and design of this report, including Caitlin Harding, Jake Fitterer and Miyeko Takeshita.



Accelerating Your Sustainability Transformation For Growth And Progress.

Contact Us

If you would like to discuss any of the findings or best practices presented in this report, please reach out to your ENGIE Impact representative or contact us at:

+1 (800) 767-4197

+44 (0)13 2262 7700

info.impact@engie.com

engieimpact.com