

Navigating The Journey To Decarbonisation

How Sound Planning And Commitment Can Lead To A Successful Net-Zero Carbon Future



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About L.E.K. Consulting

We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia Pacific and Europe — has guided leaders across all industries from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit www.lek.com.




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Overview

Organisations are accelerating their progress towards net-zero carbon emissions in response to regulatory, investor and competitive pressures. But they face many challenges along the way (see Figure 1).

Figure 1

Decarbonisation progress and challenges

	Progress	Challenges
 Governments and regulation	Regulation has accelerated in recent years, both at a country/regional level and across sectors, e.g., EU CSRD, TCFD, SEC plans	Recent need to prioritise energy security
 Investment	Investment has enabled development of viable decarbonisation technologies	Significant investment shortfall remains
 Companies	Many firms are committing to achieving net-zero or carbon-neutral status by 2050	Difficulty translating commitments into actions

Source L.E.K. research and analysis

Decarbonisation — and more broadly, sustainability — is a matter of pressing interest to L.E.K. Consulting, and to the leaders and organisations we serve.

In 2022, the L.E.K. Sustainability Centre of Excellence surveyed global leaders about their commitment and approach to sustainability, broadly defined.

We found a strong commitment — a willingness to put sustainability at the heart of strategy — but the leaders also identified significant barriers to success in the form of a lack of alignment, both internally and with external stakeholders.

This year, we asked a group of global leaders a different but closely related set of questions about their commitment to decarbonisation and the barriers they face.

We found that leaders and organisations are strongly committed to decarbonisation — perhaps surprisingly so. But turning commitment into reality is a major challenge.

Among the major findings:

- Firms are planning for many decarbonisation initiatives — far more than they have already implemented
- A surprising number have changed their business model as part of their decarbonisation program
- They report a wide range of benefits, from improved reputation to competitive advantage to lower cost of capital
- Capital is critical to their plans, but accessing it is a major barrier
- Having a plan in place really matters — organisations that have formal plans report much more progress and many more benefits

About the survey

L.E.K. surveyed 400 leaders of global companies in early 2023. Eighteen percent were in the C-suite, 55% held sustainability leadership positions and 27% were in other corporate leadership roles. Twenty-five percent were located in the US, and 15% each were in the UK, France, Germany, Australia and China (this refers to the geographic location of the executives, not the headquarters of their companies). Thirty-four percent were in the industrials sector, 24% in healthcare, 21% in consumer products, 14% in transportation and 7% in energy.



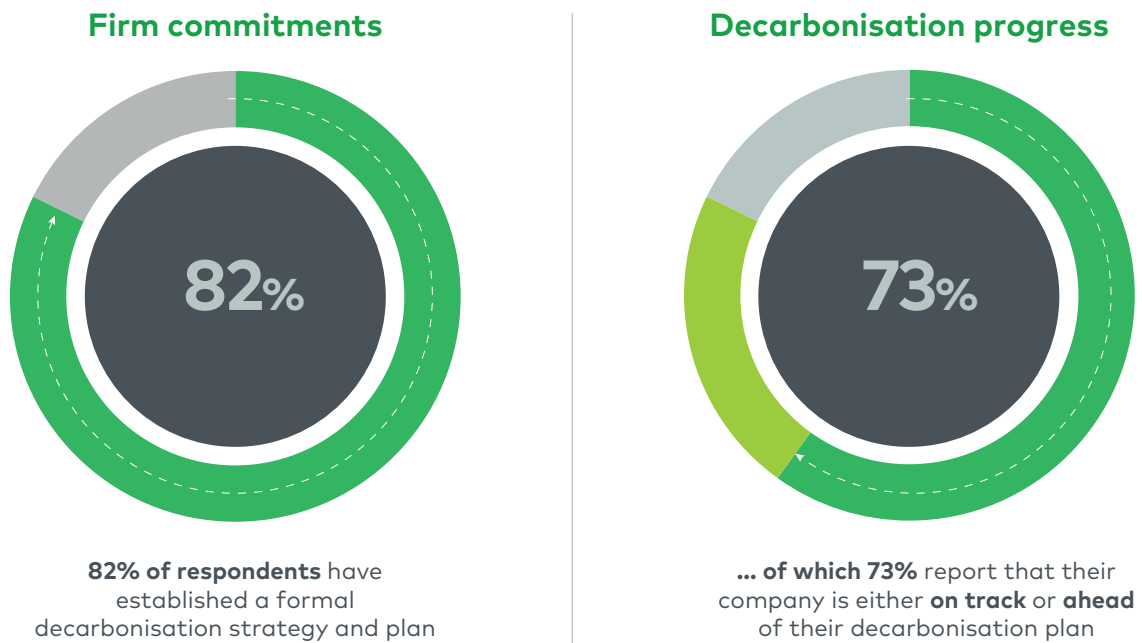
Decarbonisation progress and the state of planning

Organisations are making progress on decarbonisation, but many challenges remain. Leaders report they are making decarbonisation plans, though fewer report their plans are on track. The good news is that organisations are strongly committed to decarbonisation.

Eighty-two percent of the leaders surveyed report their firms have a formal decarbonisation strategy in place, and the 18% that do not have such a strategy say they intend to implement one.

But when it comes to progress on those plans, not all are on track. More than a quarter (27%) report that their company is not on track with their decarbonisation plan (see Figure 2).

Figure 2
Firm commitments and decarbonisation progress



Source L.E.K. 2023 Decarbonisation Survey

Among the reasons for the momentum towards decarbonisation is the commitment of senior management. Only 20% of the leaders surveyed report that senior management's commitment is a barrier to decarbonisation. In other words, there are very few instances where apathetic or hostile senior management stands in the way.

Decarbonisation efforts face significant barriers

But there are other major barriers — many of them the result of internal factors. In a finding that is broadly consistent with the results of the 2022 L.E.K. Corporate Sustainability Survey, 49% of respondents report significant disagreement within leadership about how to balance long-term decarbonisation investments against short-term performance. Forty-eight percent report a lack of alignment between senior management and the rest of the organisation. And 37% believe that executive remuneration does not adequately incentivise decarbonisation outcomes (see Figure 3).

Figure 3

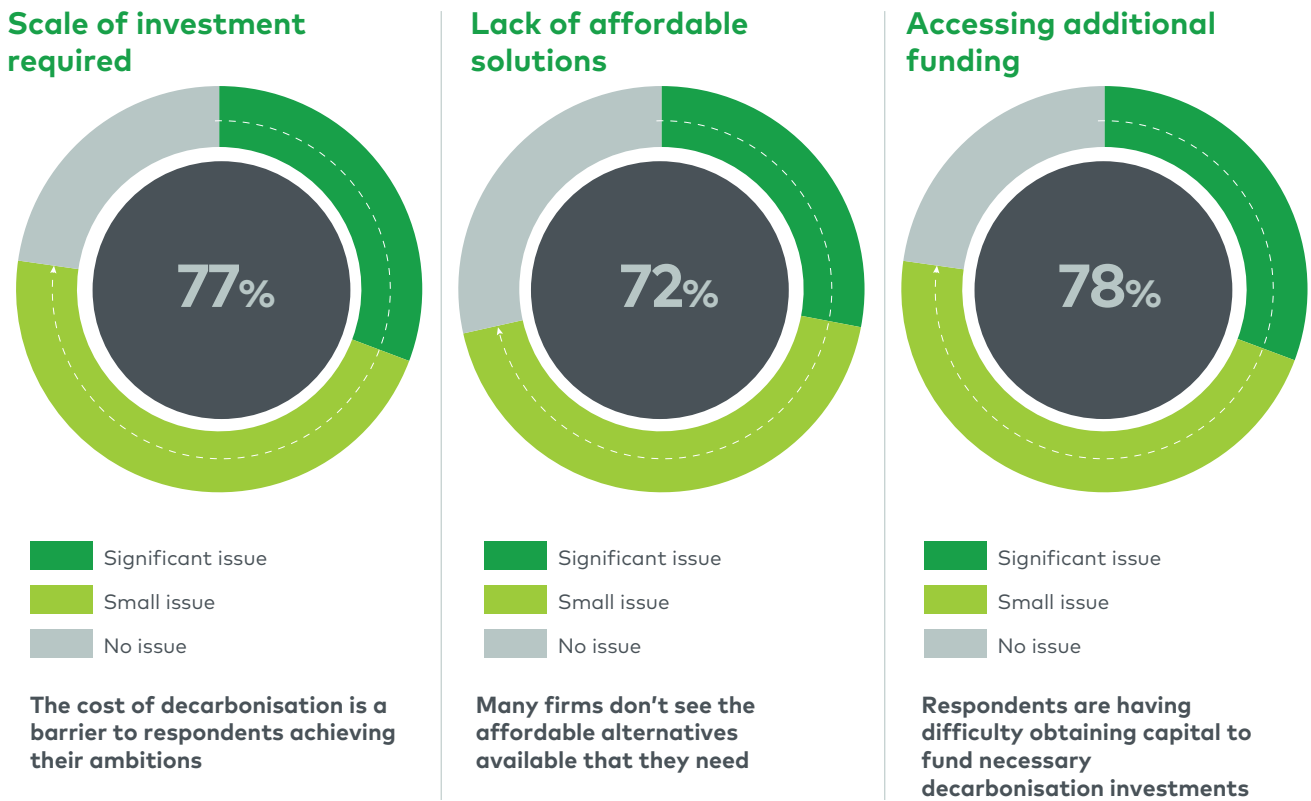
Leaders are broadly committed to decarbonisation, but strategic alignment holds organisations back



Source L.E.K. 2023 Decarbonisation Survey

The difficulty of funding decarbonisation initiatives is another barrier. This is a subset of the larger challenge of funding any kind of business transformation (see Figure 4).

Figure 4
Funding business transformation also represents a significant barrier



Source L.E.K. 2023 Decarbonisation Survey

Leaders identify other barriers as well. Many report that they lagged in specific areas of risk and preparedness associated with being unable to effectively decarbonise. Thirty-six percent report they are somewhat prepared or very well prepared for market competition. Another 36% believe they are somewhat prepared or very well prepared to raise capital for future decarbonisation projects. Twenty-seven percent report they are somewhat prepared or very well prepared for changes to carbon reporting requirements in the future. Thirty-eight percent report they are somewhat or very well prepared for changes in government regulation. And 41% report they are somewhat prepared or very well prepared to weather economic downturns.

Taken together, leaders' responses about barriers suggest that although plans are in place, many firms are not able to move them forward as aggressively as they could or perhaps should.

Put another way: Most companies have decarbonisation plans, but their plans lack most elements necessary for realisation.

One clear way to overcome barriers: Have a strategy

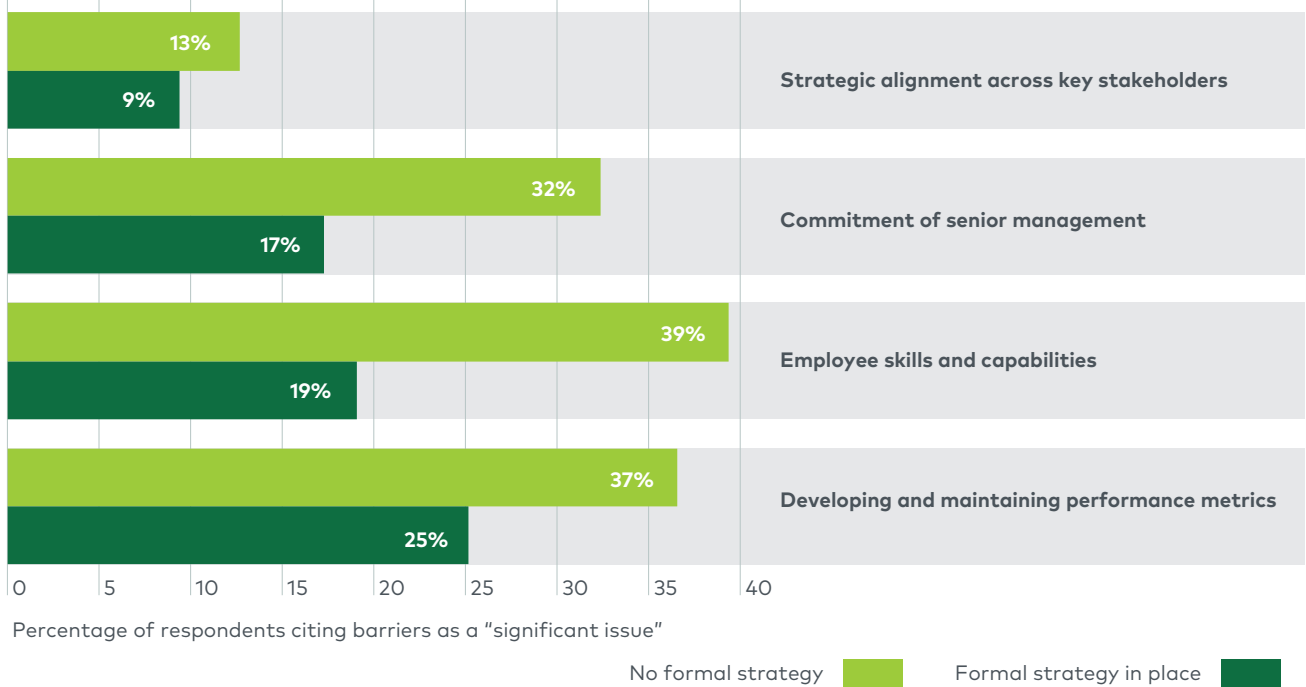
The leaders who report fewer barriers to decarbonisation are those from firms that had clear decarbonisation strategies.

Leaders from firms that lack a clear decarbonisation strategy tend to report greater barriers to decarbonisation, with challenges ranging from employee skills and capabilities to stakeholder alignment.

Asked which factors represent a significant issue that prevents the company from decarbonising, leaders of firms that had no formal strategy more frequently cite barriers including strategic alignment across key stakeholders (13%, versus 9% of those that had a formal strategy in place), commitment of senior management (32% versus 17%), employee skills and capabilities (39% versus 19%) and developing and maintaining performance metrics (37% versus 25%) (see Figure 5).

Figure 5

Firms with a decarbonisation plan see potential barriers as less of a challenge



Source L.E.K. 2023 Decarbonisation Survey

At least some barriers are business problems of a kind that leadership is accustomed to solving

While technological problems (including the lack of available technology) figured prominently among the barriers that are most frequently cited, another significant set of barriers consists of business problems centering on investment and people, such as raising capital, controlling costs, achieving strategic alignment and creating incentives via remuneration. These are exactly the kinds of problems that the C-suite deals with every day, and it is possible that leaders will find them more tractable. So while technical barriers persist, they are not the sole

obstacle for decarbonisation for most respondents. Business barriers may prove easier to surmount.

It is encouraging to note that the most pressing question leaders are asking appears to be not whether to develop a decarbonisation strategy but how to do it.

Barriers

Despite barriers, the level of commitment is strong: Leaders are willing to make significant trade-offs in order to pursue decarbonisation, including trading off near-term profitability.

Leaders' commitment to decarbonisation isn't just rhetoric. They are willing to make business decisions, including trade-offs, in order to achieve long-term decarbonisation outcomes.

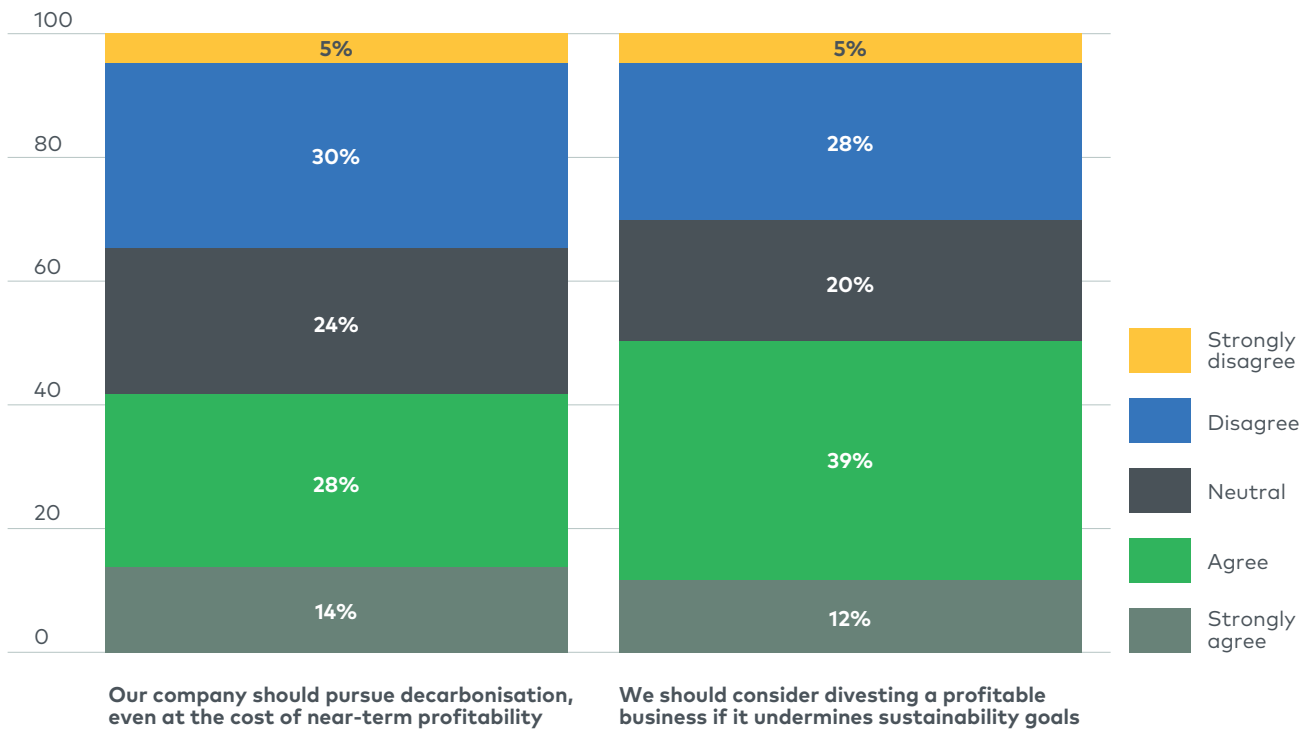
More respondents believe that their firms should pursue decarbonisation at the expense of near-term financial profitability (42%) than do not (35%).

More respondents believe that their firm should consider divesting a profitable business if it undermines sustainability goals (51%) than do not (31%) (see Figure 6).

Figure 6

More firms tend to agree more than disagree on trade-offs in order to decarbonise

Percentage of respondents agreeing or strongly agreeing with statements

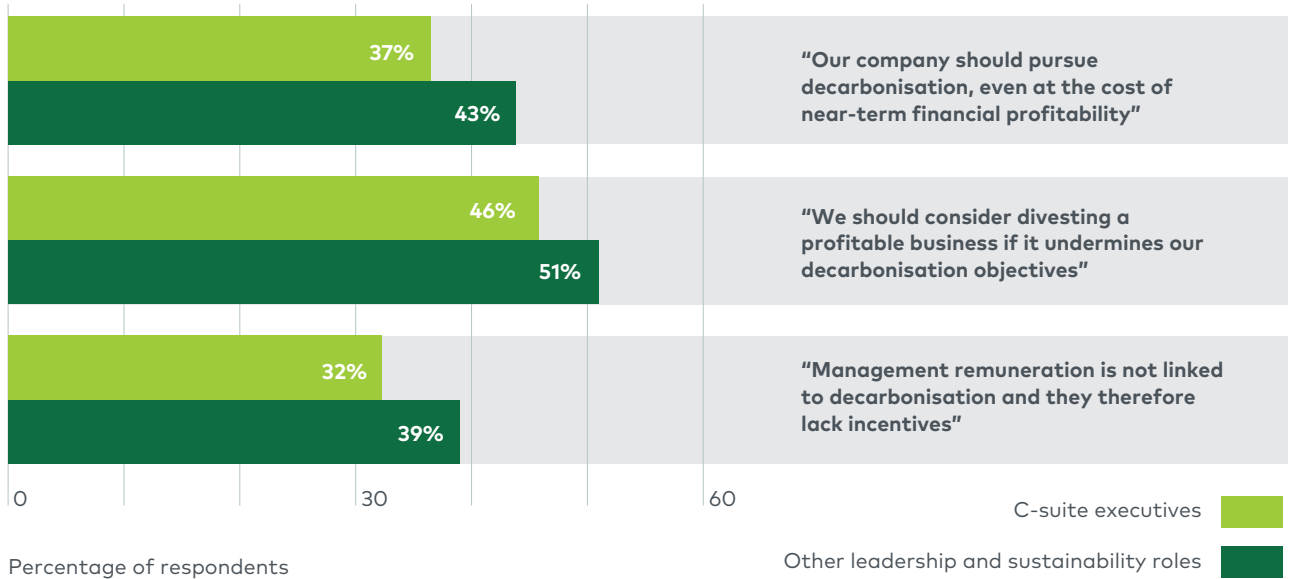


Source L.E.K. 2023 Decarbonisation Survey

Perhaps not surprisingly, C-suite executives are slightly less willing to accept trade-offs than are sustainability leaders and those in other leadership roles. Only 37% are willing to trade off short-term profitability versus 43% of other leaders. Forty-five percent of C-suite executives are willing to divest profitable businesses versus 51% of other leaders (see Figure 7).

Figure 7

C-suite executives are less open to risking near-term financial performance for the sake of long-term decarbonisation outcomes



Source L.E.K. 2023 Decarbonisation Survey



Level of commitment and decarbonisation initiatives

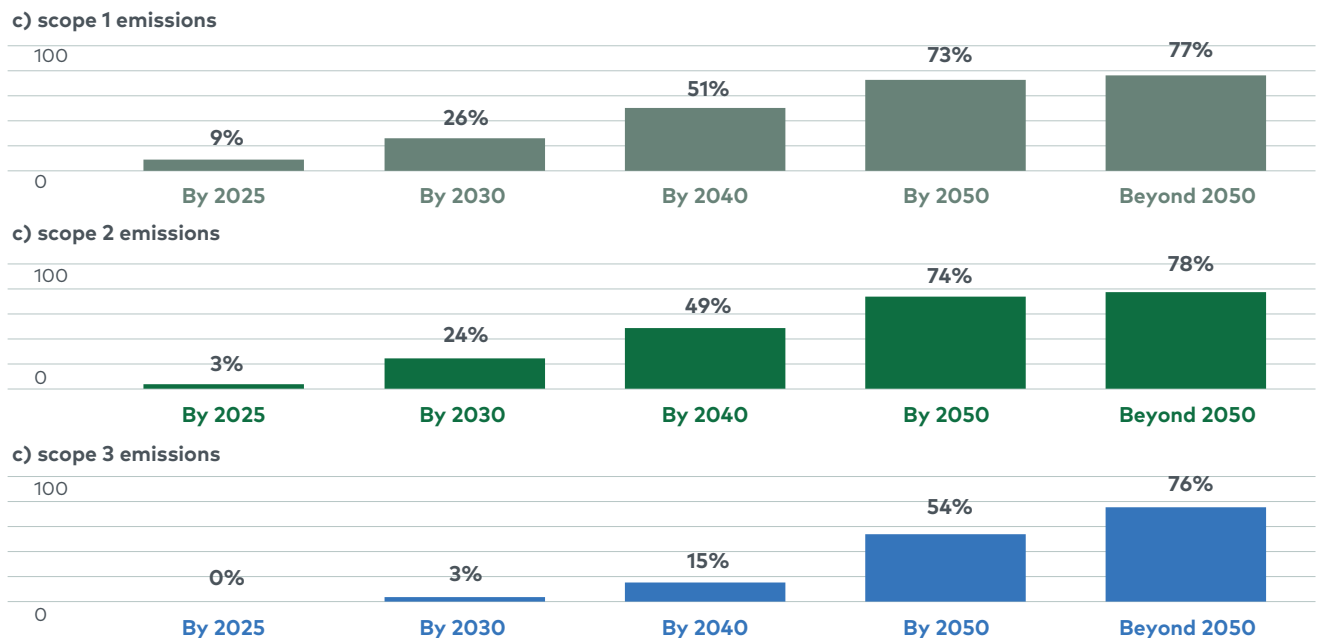
Most companies have committed to achieving scope 1 (direct) and scope 2 (indirect) decarbonisation targets. Scope 3 (partner and supply chain) commitments lag behind.

Nearly three-quarters of respondents report their companies have committed to achieving net-zero carbon emissions in both scope 1 and scope 2 by 2050 – 73% have committed to scope 1 and 74% have committed to scope 2 by then. Scope 3 commitments lag – just slightly more than half (54%) report scope 3 net-zero commitments by 2050. But 76% report their companies have made scope 3 net-zero commitments beyond 2050 (see Figure 8).

The gap may simply reflect the fact that regulatory action on scope 3 is further off. But it may also be due to the complexity of tracking scope 3 emissions. The survey found that access to technology (43%), the ability to influence suppliers (41%) and the lack of full supply chain visibility (39%) are the top challenges cited for reducing scope 3 emissions.

Figure 8
Commitments to decarbonisation targets by 2050 and beyond

“We have committed to **achieving net zero or carbon neutrality by this date** for each scope type”



Source L.E.K. 2023 Decarbonisation Survey

These commitments are not idle; firms have implemented or are planning to implement a wide array of decarbonisation initiatives

Leaders report their firms have implemented or are planning in the next five years to implement a wide array of decarbonisation initiatives, such as:

- Strategy and planning:** Sixty-three percent have established net-zero goals and strategies; an additional 29% are planning to do so in the next five years. Forty-five percent have developed a net-zero roadmap and plans and an additional 34% are planning to do so in the next five years.
- Research and development:** Forty-one percent are designing products to reduce the intensity of their emissions across the life cycle; 39% are planning to do so in the next five years.
- New technology:** Forty percent have invested in data analytics, smart sensors or blockchain technology to track and manage emissions. Another 44% are planning to do so in the next five years. Thirty-nine percent have switched to low-carbon equipment or infrastructure and another 40% plan to. Thirty percent are utilising carbon-capture technologies and another 36% plan to. Forty-two percent are investing in R&D to develop low-carbon products and another 35% plan to.
- Energy consumption:** Fifty-seven percent are already using renewable energy sources and 28% are planning to do so in the next five years. Fifty-seven percent are using renewable energy sources including wind, solar and hydro; another 28% plan to. Twenty-seven percent are using hydrogen-based energy sources and another 36% plan to. Thirty-eight percent are using bioenergy sources and another 34% plan to.
- Organisation and capabilities:** Fifty-four percent have begun hiring new talent to support net-zero initiatives and 30% plan to do so in the next five years. Forty-six percent have implemented staff training programs and 36% plan to do so in the next five years. Thirty-eight percent have improved their emissions reporting capabilities and another 38% plan to. Thirty-four percent have established internal carbon pricing and another 41% plan to. Thirty-five percent have linked executive and management remuneration to decarbonisation outcomes and another 38% plan to.
- Business model innovation:** Leaders are pursuing a variety of business model innovations, or plan to in the next five years, including putting a price on carbon (35% have done so and 46% plan to), increasing product lifespans (42% have done so and 38% plan to), shifting towards product-service systems (38% have done so and another 38% plan to) and increasing the efficiency of their logistics (35% have done so and 39% plan to).
- Procurement and suppliers:** Leaders are engaging with suppliers to reduce emissions (41%) or plan to within five years (36%); they are measuring and tracking or plan to measure and track supplier emissions either directly (36% and 45%, respectively) or indirectly (34% and 43%, respectively). And they are acting or plan to act to address their procurement policies. Forty-two percent are purchasing the same products from lower-carbon suppliers and 40% plan to within five years; 41% are shifting to lower-carbon alternative products and 39% plan to.

Decarbonisation initiatives are producing significant benefits

Ninety-nine percent of leaders at firms that have undertaken decarbonisation initiatives report they have realised at least one benefit as a result. And nearly 75% of firms have realised at least three.

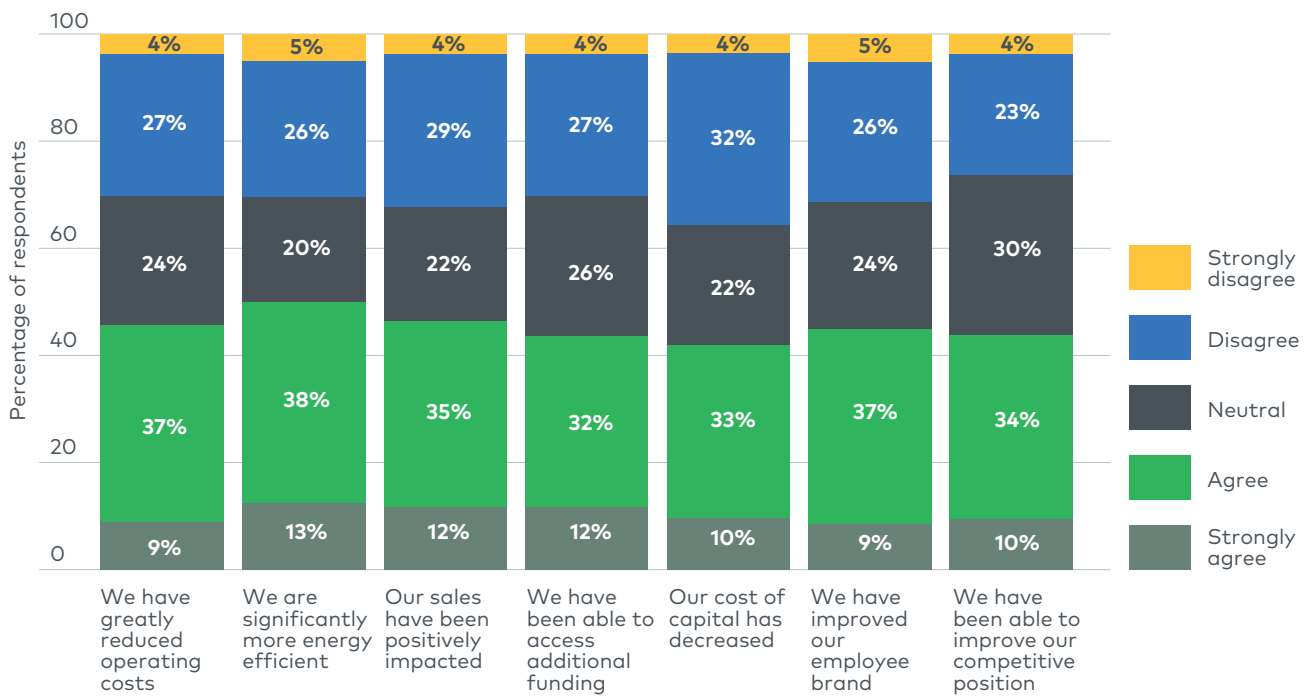
The benefits are notable – they have a fundamental impact on the business. Respondents were asked whether their company had been able to realise a benefit in each of seven specific areas. Cited most frequently (“agree” or “strongly agree”) were: “We are significantly more energy efficient” (51%) and “we have greatly reduced our operating costs” (46%). Close behind were “our sales have been positively impacted” (47%), “we have been able to access additional funding” (44%), “our cost of capital has decreased” (43%), “we have improved our employee brand” (46%) and “we have been able to improve our competitive position” (44%) (see Figure 9).

Decarbonisation initiatives are clearly delivering in essential ways.

Figure 9

Approximately 40%-50% of firms have realised benefits as a result of their decarbonisation activities

“Our company has been able to realise a **benefit** in this area as a result of our decarbonisation efforts”



Source L.E.K. 2023 Decarbonisation Survey

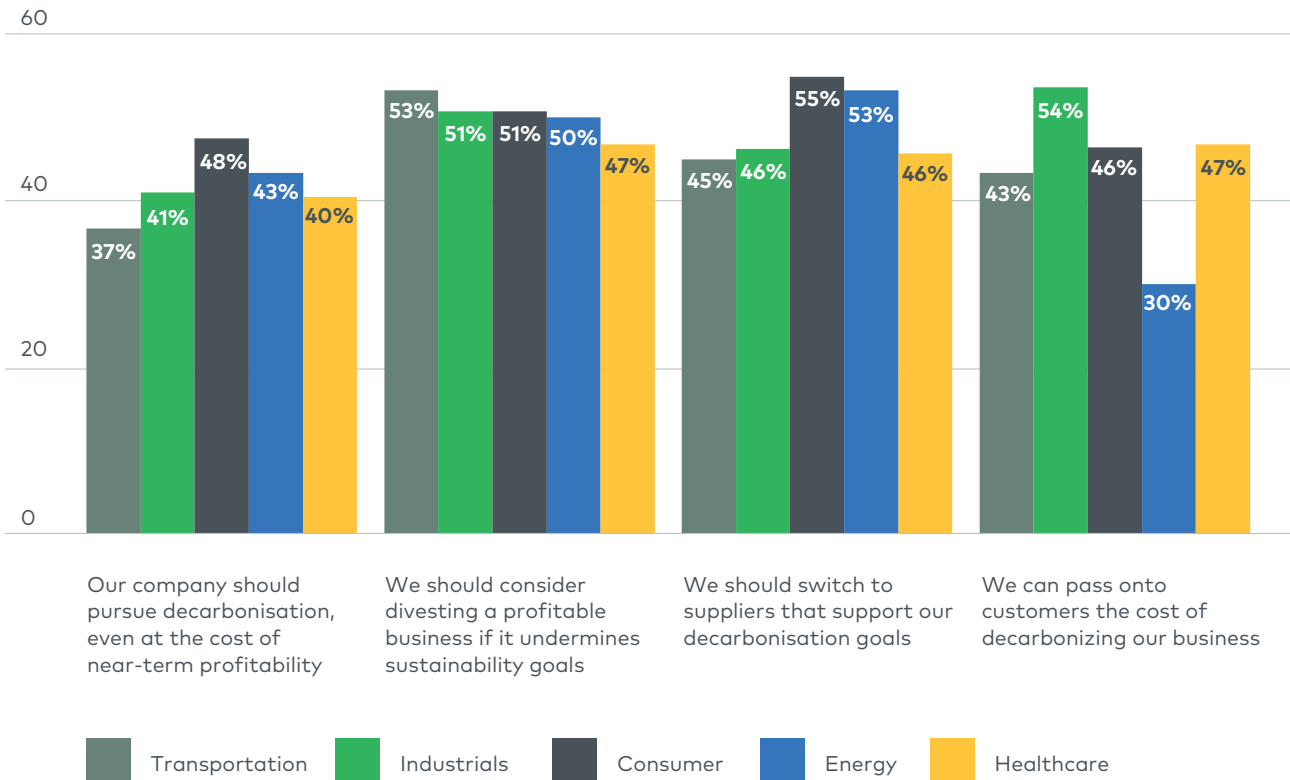
INDUSTRY FOCUS

Industries are not moving in lockstep; some are making rapid progress, while others are progressing more slowly

Industries differ according to their dynamics and characteristics. In general, the sectors where carbon is an existential issue (energy) or is hardest to abate (transportation, industrials) are making the strongest commitment. The consumer and healthcare sectors, where decarbonisation is less existential, are moving more slowly (see Figure 10).

Figure 10
Barriers to decarbonisation affect various sectors differently

Percentage of respondents agreeing or strongly agreeing with statements



Source L.E.K. 2023 Decarbonisation Survey

Energy is in the lead. Decarbonisation is existential and requires thinking in new ways, which the industry has embraced. The energy sector seems to have a first-mover advantage on decarbonisation. This may reflect the fact that decarbonisation has the potential to pose a long-term existential threat to carbon-intensive firms in the industry.

Energy leads on goal setting — 87% have target dates of 2050 or earlier for carbon neutrality on scopes 1 and 2 and 73% have targets that cover scope 3.

And seventy-three percent report being ahead of their goals — the highest level of any industry in the survey.

Industrials have set ambitious targets. Eighty percent have set scopes 1, 2 and 3 targets versus 71% for all businesses surveyed. Automated energy management is a particular focus (49%). Benefits they cite include ability to access additional funding (57%) and increased sales (53%) as a result of decarbonisation. Sixty-five percent report risking capex requirements 10 years out and beyond — more than any other sector.

Transportation as a whole lags on goal setting but leads on the shift towards product-service system business models (45%). The sector reports substantial benefits — increased efficiency (50%) and reduced cost of capital (47%) — but sees limited benefits in recruiting (32%).

Consumer businesses track the overall average on goal setting, and they lag on many initiatives but lead on some, particularly around strategy development and business model adaptation. The sector has the highest adoption level for science-based targets (34%). In this sector, brand impact matters — 50% report that decarbonisation has improved their competitive position. But consumer businesses complain about the lack of affordable solutions.

Healthcare has a low percentage of businesses set to achieve carbon neutrality or net-zero targets by 2050 — just 61% for scopes 1 and 2 and 36% for scopes 1, 2 and 3. This is not to say that they have no decarbonisation plans, only that many healthcare firms are more likely to have set their targets beyond 2050 compared with firms in other sectors.

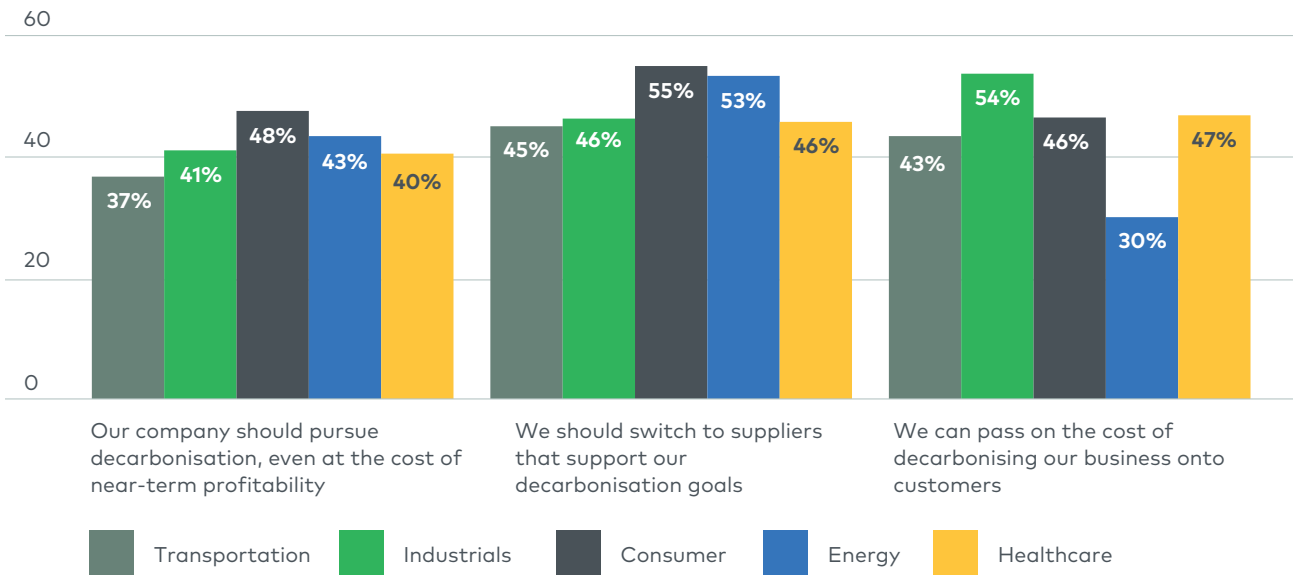
Healthcare firms report the lowest level of progress, with just 51% on track or ahead of their plans. They lag on most initiatives, except those aimed at extending the life cycle of products. Again, this may be a result of the industry's longer decarbonisation timelines. But healthcare firms are most likely to report improved employee brand and higher sales as a result of decarbonisation (50% each).

Barriers differ by industry as well. There are significant variations among industries as to whether technology, employee capabilities, access to capital or other factors are the most frequently cited barriers.

And industries differ in their willingness to accept trade-offs. For example, leaders in the energy sector feel less able to pass on the cost of decarbonisation to customers. The transportation sector is reluctant to decarbonise at the expense of near-term profitability, but nearly half of consumer industry leaders feel that they should (see Figure 11).

Figure 11
Sectors are not fully aligned on the trade-offs necessary in order to decarbonise

Percentage of respondents agreeing or strongly agreeing with statements



Source L.E.K. 2023 Decarbonisation Survey



Lessons from leaders

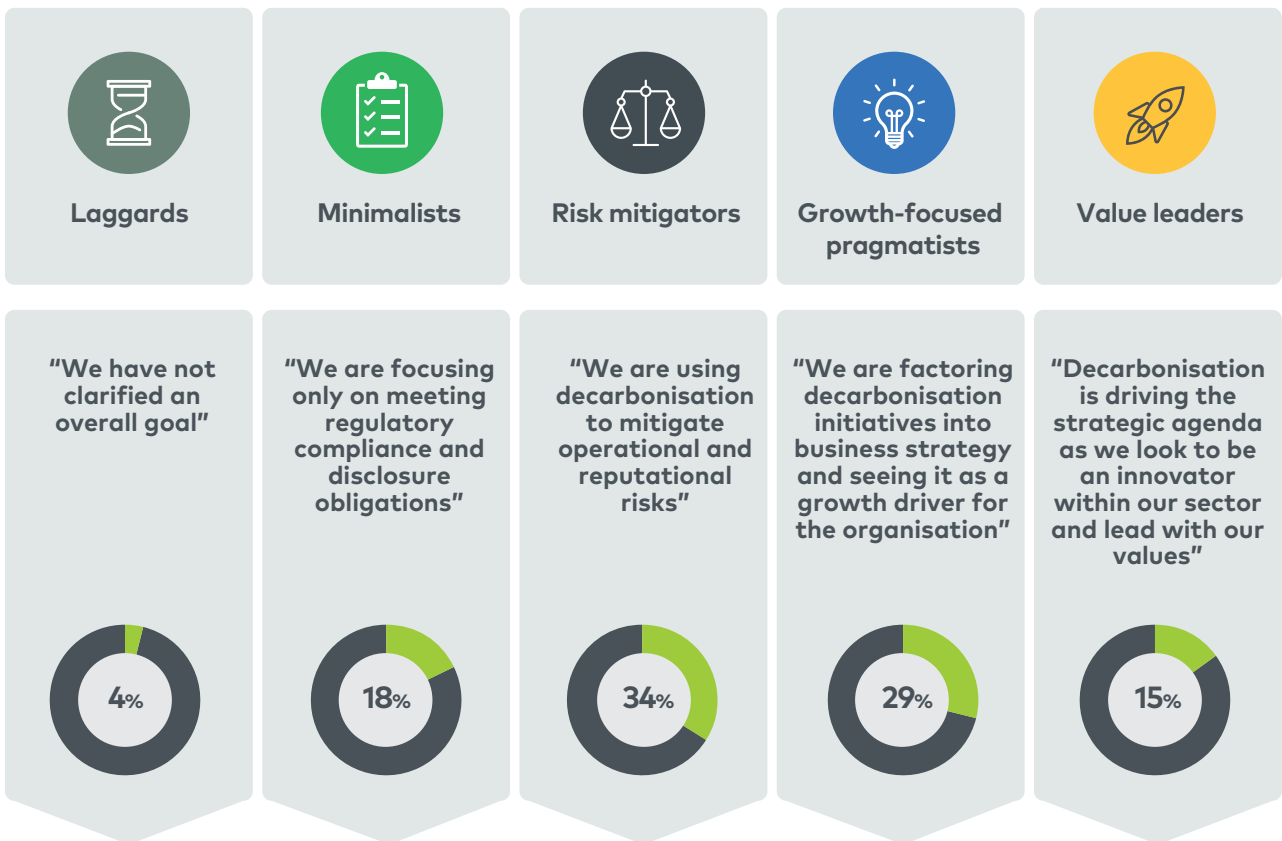
The firms that had the farthest-reaching decarbonisation goals report the greatest benefits.

Not all firms' goals were equally ambitious (see Figure 12).

Figure 12

Decarbonisation ambition levels vary from passive to highly proactive

What is the major goal of your decarbonisation efforts?



Source L.E.K. 2023 Decarbonisation Survey

But the more ambitious they were, the greater the benefits they report.

- Fifty-one percent of value leaders report that "our cost of capital has decreased," compared to 44% of growth-focused pragmatists, 44% of risk mitigators, 32% of minimalists and 21% of laggards.

- Fifty-one percent of value leaders report that “we are in a better strategic position relative to our competition,” compared to 48% of growth-focused pragmatists, 41% of risk mitigators, 38% of minimalists and 46% of laggards.

In other words, an ambitious focus on strategy and value creation is far more likely to produce reportable benefits than a compliance-only approach.

For leaders, the survey results offer several lessons

For leaders who seek to initiate decarbonisation commitments — or accelerate existing ones — the survey data offers a number of lessons (see Figure 13).

If you don’t have a formal decarbonisation plan in place, create one. Businesses with formal plans see a range of benefits, including better alignment and lower costs.

If your strategy is focused only on compliance, reconsider it. Firms with more ambitious goals, and with goals rooted in values, report they are better prepared for competition, achieve a better strategic position against competitors and have a lower cost of capital.

Develop a realistic roadmap to turn strategy into reality. Not all firms have a tangible roadmap, but those that do are more successful in pursuing their goals.

To overcome barriers:

- **Innovate.** Design less carbon-intensive products, invest in product-service systems and increased product lifespans, develop carbon-pricing protocols, and increase logistics efficiency.

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- **Hire and train talent** with the necessary skills.

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- **Launch incentive and compensation programs** to align key stakeholders.

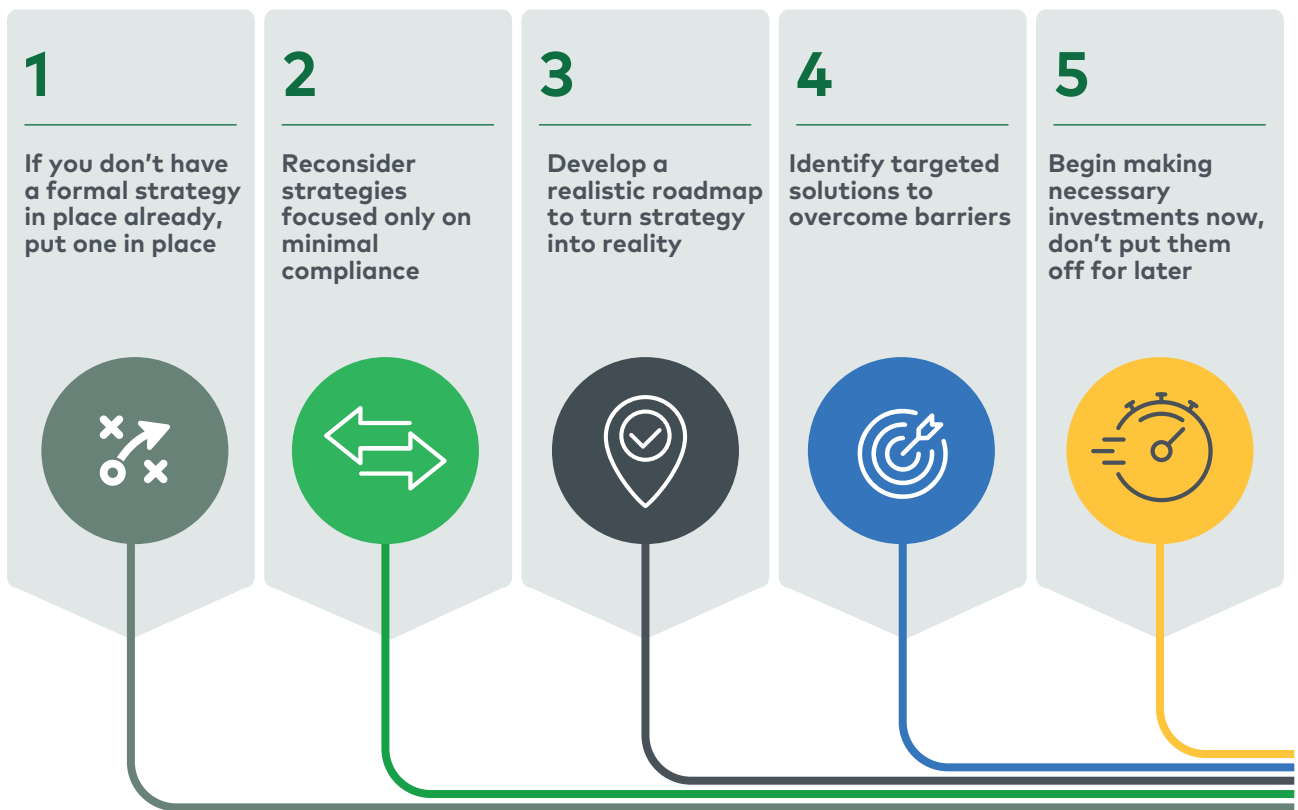
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- **Evaluate trade-offs**, including possible divestitures, with external advice if possible.

-
- **Leverage decarbonisation progress and activities to attract and raise capital.** While leaders report that raising capital is a barrier, having a decarbonisation plan in place can help drive capital formation. In addition, firms with a formal decarbonisation plan are more likely to report decreased cost of capital as a result of those efforts.
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- **Invest in R&D, data and analytics, and other capital-intensive carbon initiatives. Start now – don't wait.** Many firms report they do not anticipate making large capital expenditures (capex) until 10 or more years from now. But that approach delays investments that could generate savings now. Firms that are further along in their decarbonisation journeys are already realising benefits. Delaying investment is likely to put your firm at a competitive disadvantage.

Figure 13
Next steps for leadership

What is the major goal of your decarbonisation efforts?



Source L.E.K. 2023 Decarbonisation Survey

GEOGRAPHIC FOCUS

Drivers towards decarbonisation vary by region; initiatives are ahead in Europe, with regulation as a strong driver

Leaders in European geographies report having the most ambitious targets. Seventy percent of UK businesses are targeting net zero on scopes 1, 2 and 3 by 2050.

Eighty-two percent of UK businesses report being on track or ahead of their targets (versus 62% in France and 60% in Germany).

When it comes to initiatives, leaders in the UK report high levels of adoption across most categories. Germany leads on technological innovation, with many respondents reporting initiatives focused on product-service system design and smart emissions-tracking technology (50%).

Chinese businesses are setting less ambitious targets – just 28% have plans to achieve carbon neutrality or net zero for scopes 1, 2 and 3 by 2050.



Sixty-nine percent of US businesses have 2050 scope 1 and 2 targets in place; 44% have 2050 scope 1, 2 and 3 targets in place.

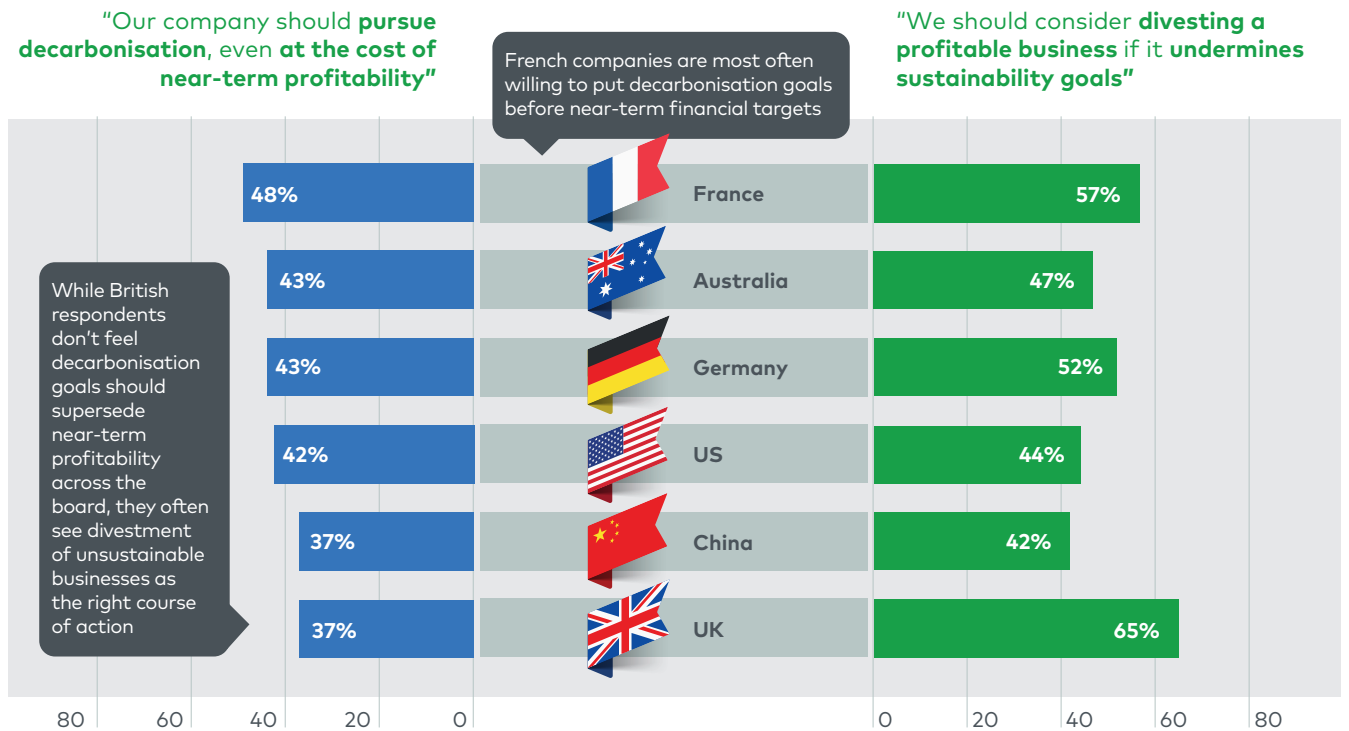
US businesses are particularly active, with a number implementing initiatives, including in strategy and planning, energy, technology, and suppliers. Implementation of automated energy management systems and renewable energy sources is high.

Leaders of US businesses report initiatives focused on low-carbon processes (48%), utilisation of low-carbon equipment (46%) and R&D investment in low-carbon products (46%).

Leaders of US businesses also see industrywide transparency as a key facilitator of decarbonisation (61% versus 49% for the survey respondents as a whole).

Firms in different geographies differ sharply about trade-offs. For example, leaders in French firms are most often willing to put decarbonisation goals ahead of near-term financial targets. Leaders in UK firms don't feel decarbonisation goals should supersede near-term profitability across the board but often see divestiture of unsustainable businesses as the right course of action (see Figure 14).

Figure 14
What trade-offs are businesses prepared to make in order to achieve decarbonisation outcomes?



Source L.E.K. 2023 Decarbonisation Survey

Conclusion

The multiple pressures propelling organisations towards a net-zero carbon emissions future have made sustainability a boardroom priority. Our recent survey of business leaders revealed strong commitment but inevitable barriers to success.

Acting now to develop a plan is imperative. The sooner a formal plan is in place the quicker it can deliver tangible benefits, and the majority of leaders we talked to have a decarbonisation plan, but a significant number of plans are failing to deliver. Senior management commitment and buy-in is proving to be a major stumbling block, and making decarbonisation plans part of a broader commercial strategy is key. Those that link the decarbonisation process to their strategy and values are already reaping the rewards and enjoying a range of advantages. Those merely engaged in a box-ticking exercise report less success.

From reduced operating costs to lower energy consumption, increased sales, better access to funding, lower cost of capital, enhanced employer brand, and improved competitive position - the benefits of decarbonisation are already proving to be worth the effort. A huge majority of firms in our survey report said that they have already realised one or more benefit.

Different industries are progressing at different speeds, with some racing ahead while others lag behind. The energy sector has taken a clear lead, while traditionally conservative healthcare businesses have the most ground to make up. Complacency is the enemy in every sector, and the quest for net-zero carbon emissions is here to stay.

Ambition is a huge driver for the change needed, and business leaders have a significant role in creating a climate that encourages and strives for sustainability success. Once again, a robust strategic plan proves essential as an enabler for this aspiration.

Taking a global perspective, we are seeing European companies setting the most ambitious targets and the UK taking the lead in the region. In the US the story is mixed, but well over half of our survey respondents reporting that targets are in place. China trails the rest of the world on this important issue and has the most potential for advancement.

Wherever we look, the fundamental lesson of the data is that decarbonisation has quickly become integral to the fabric of business operations. Now is the time to weave it into yours.

How we help our clients

L.E.K. supports clients across a broad range of decarbonisation issues focussed on the commercial implications of the decarbonisation imperative:

- **Net-zero strategy and implementation:** Developing decarbonisation or net-zero strategies with a focus on the commercial and financial implications
- **Scope 3 emissions strategy:** Assessing scope 3 emissions drivers and developing an emissions reduction strategy and pathway
- **Sustainability investment strategy/thematic mapping:** Identifying attractive investment areas or targets to help companies achieve their decarbonisation and sustainability goals
- **Sustainability-driven growth:** Growth and corporate strategy development for new products and services relating to decarbonisation and sustainability
- **Commercial environmental, social and corporate governance due diligence considerations:** Incorporating assessment of decarbonisation and sustainability performance — with a focus on the commercial risks and opportunities — into buy- and sell-side commercial due diligence

The L.E.K. Sustainability Centre of Excellence draws together the expertise, best practices and strategic insights necessary to support your approach, address the challenges and capitalise on the opportunities that sustainability brings.

[Visit the L.E.K. Sustainability Centre of Excellence](#)

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