

Moving From ESG Commitment to Action

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Organisations are prioritising sustainability to satisfy consumer and investor demands, comply with evolving regulations, and maintain a competitive advantage in the war for talent



Consumers

- **L.E.K.’s Consumer Survey** found that nearly **half of consumers** have **switched brands** due to **environmental, or ethical concerns**
- Sustainability-marketed products are **delivering more than half of overall market growth**, despite making up < 20% of the overall market



Investors

- ~89% of investors incorporate ESG into their investment approach, and **35% of global AUM (c. \$40 trillion) have a sustainable stance, and > \$2.5tn with a pure ESG focus**



Regulation

- **Regulations are continually evolving and becoming stronger**, e.g. the EU’s Corporate Sustainability Reporting Directive from 2024, the SEC’s enhanced disclosure proposals



Talent

- **Strong sustainability goals and policies can serve as a competitive advantage in the war for talent**

As a result, organisations are making more commitments towards sustainability



82%

of the **FTSE 100** have committed to net zero by 2050



702

of the **2,000 largest publicly traded global** companies claim **net zero commitments**

L.E.K Global Corporate Sustainability Survey



ESG is seen as a growth driver for organisations

51% of organisations are focused on **ESG as a growth driver**, while **20%** are taking an **innovation-led approach**



...and are willing to sacrifice short-term financial gain to achieve sustainability goals

54% of public company executives are willing to address long-term **ESG issues** even if that reduces short-term financial performance



Companies are backing up their commitment

The **major focus** for investment over the next 5 years is “**sustainable/services products and their distribution**”

Despite these commitments and intent, we observe that organisations are struggling to progress their emissions ambitions



Companies are struggling in doing enough

- Of the 82 FTSE 100 companies with net zero targets, **only 40 have committed to the Science Based Targets Initiative**
- Just 42% of Climate Action 100+ tracked companies include Scope 3 emissions



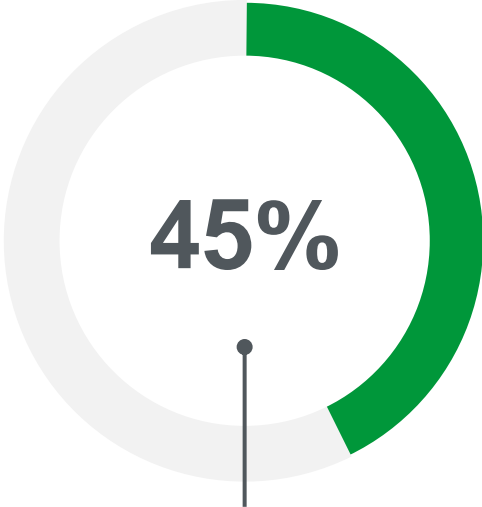
The outlook remains uncertain while companies lack clear Net-Zero roadmaps

- **Nearly half of 25 of the world's most valuable companies** lack clear guidance or action plans to reduce emissions to hit their target net-zero year

Alignment issues across stakeholders are undermining ambitions ...

Stakeholder alignment issues

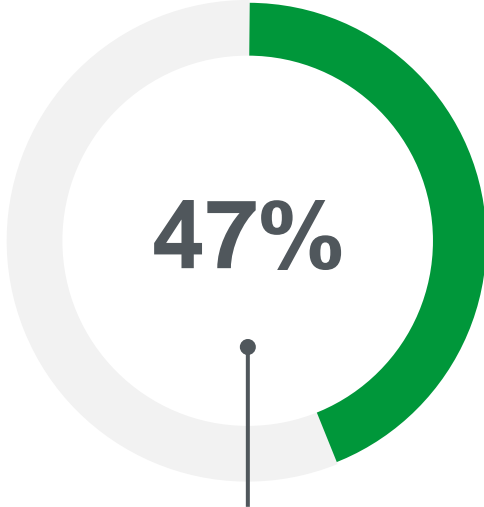
The No.1 barrier to delivery of long-term sustainability ambition is the **lack of alignment across key stakeholders**



Less than half of executives surveyed have an executive team and board that are strongly aligned on ESG priorities

Difficulties balancing the interests of different groups

Nearly half of organisations surveyed struggle to balance the interests of different groups, such as communities versus stakeholders

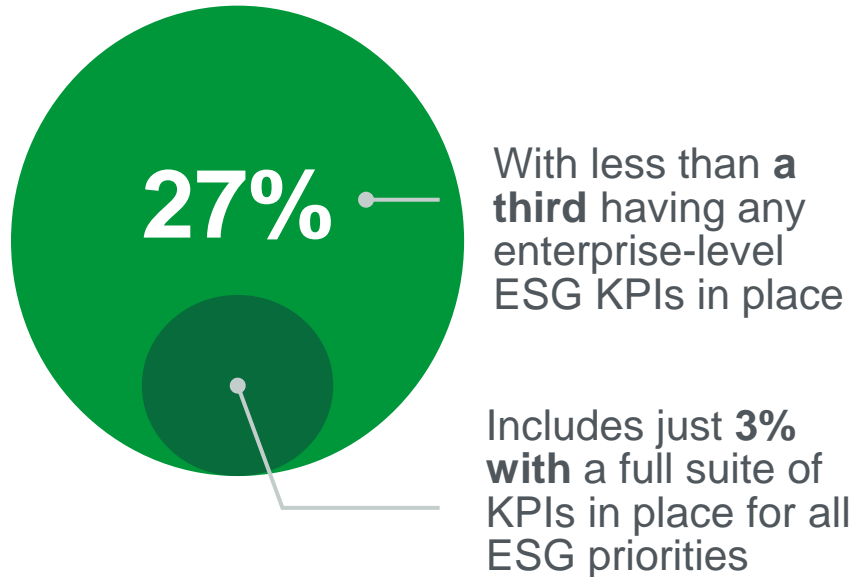


Source: L.E.K. Global Corporate Sustainability Survey

...and three key factors are slowing progress against ESG goals

Demands for ESG transparency

87% feel pressure from investors for increased ESG reporting



Trade-offs

51% say addressing ESG issues should take precedence over short-term financial performance



Accountability for delivery

The **No.1** concern with delivery is not having the right rewards framework to drive behaviour



Successful organisations are overcoming these challenges in a number of ways



Sustainability integrated into strategy

- Manage sustainability as an integrated set of strategic choices embracing vision and goals; where to play; and how to win, organise and get it done



Organisational awareness

- Build organisational awareness of the sustainability strategy as deeply as possible



Culture

- Establish a mindset to future-proof the business's products and services



Supply chain

- Understand the impact of an organisation's sustainability goals on its supply chain



Sustainability education

- Ensure executives have the necessary knowledge and skills



Brand and purpose

- Embed sustainability in the organisation's brand, purpose, products and services



Sustainability benefit assessment

- Take a more holistic approach to investment and capital allocation by factoring in sustainability impact

Source: L.E.K. Global Sustainability Centre of Excellence

A plan for action for corporates to overcome the challenges to delivering on sustainability



Drive strategic alignment



- Work to **establish a common language** for sustainability initiatives
- Develop a **vision and goals**, and understand and **articulate the strategic choices** required to achieve those goals



Assess strategic choices



- Prioritise **strategic choices** that support and **accelerate sustainability goals**, e.g. product/service portfolio, brand positioning
- Analyse both the **financial and non-financial benefits** of each choice that helps achieve ESG goals; **engage the full leadership team** in the process



Build capabilities



- Identify and address the **requirements for new skills and capabilities**
- **Ensure a flexible operating model** to handle sustainability disruption and change



Establish KPIs



- **Define what is required** to achieve the goals and **set KPIs** that enable measurement
- Establish **data capture capabilities** and systems to **enable reporting and tracking**



Align remuneration



- **Align compensation to the KPIs** to reward sustainability progress and performance

National Express engaged L.E.K. to support developing its Net Zero Goals and Roadmap

Context

- **Transition to Net Zero** is a **critical strategic issue** for all transport operators
- **Complex trade-offs** to be assessed requiring external perspective and skills
- Engagement required close collaboration, external stakeholder engagement and rigorous analysis

Key issues

- **Level of ambition** for business with regards to **Net Zero targets**
- Likely **evolution of technologies** and market (customer and regulatory) drivers
- Potential **scenarios for transitioning** the business to Net Zero
- **Opex and Capex implications** of each scenario
- Potential benefits, value creation levers and sources of competitive advantage
- **Strategic Roadmap** for a value-maximising scenario



Our journey started with an early commitment to no longer buy diesel buses, but now we are progressing action and turning words into reality

How we gained alignment to drive action:

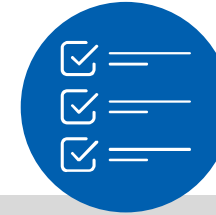


1. We identified the **investor benefits** for taking an environmental leadership position



2. **Governance structures** enabled senior leadership buy in of the leadership position

- Safety and Environment Board Committee with advocates of net zero



3. Developed a **framework of commitments** beyond the initial commitment of not buying diesel vehicles, extending across all markets

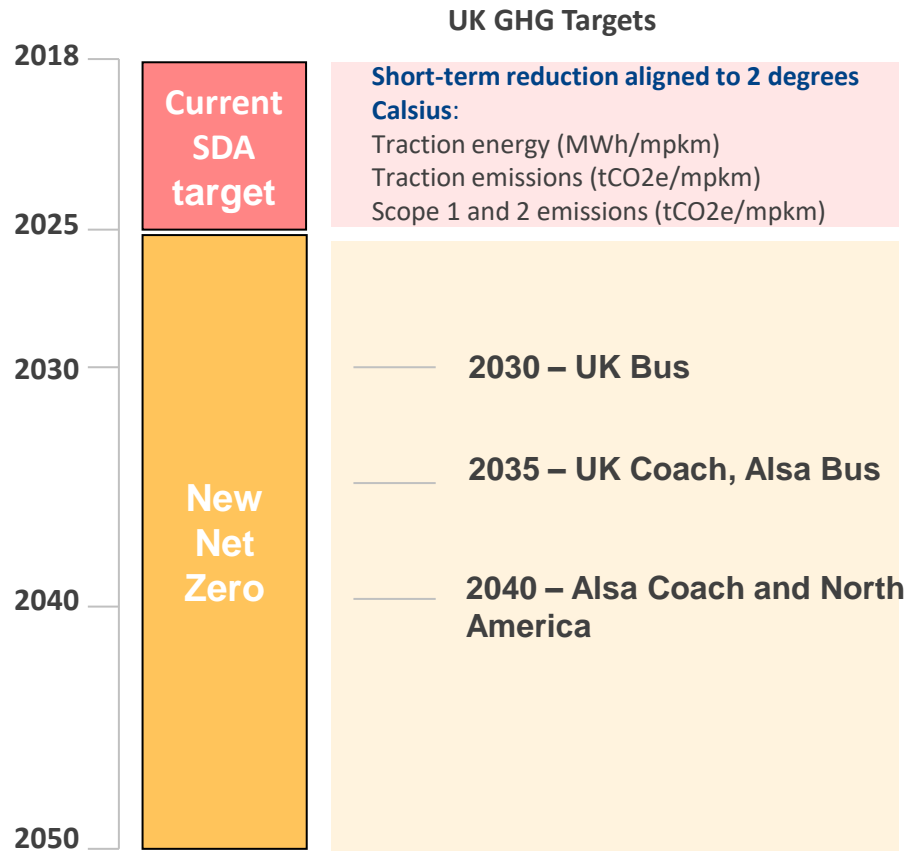


4. Produced **detailed modelling** with L.E.K. to understand:

- Market context
- Technology solutions for different vehicle types
- Economic case for net zero



Detailed modelling enabled us to create a clear Group Scope 1 and 2 zero emissions target for 2040, driven by fleet decarbonisation



- Prior to the net zero project, NEG's environmental targets were intensity metrics aligning to limiting global warming to 2 degrees Celsius

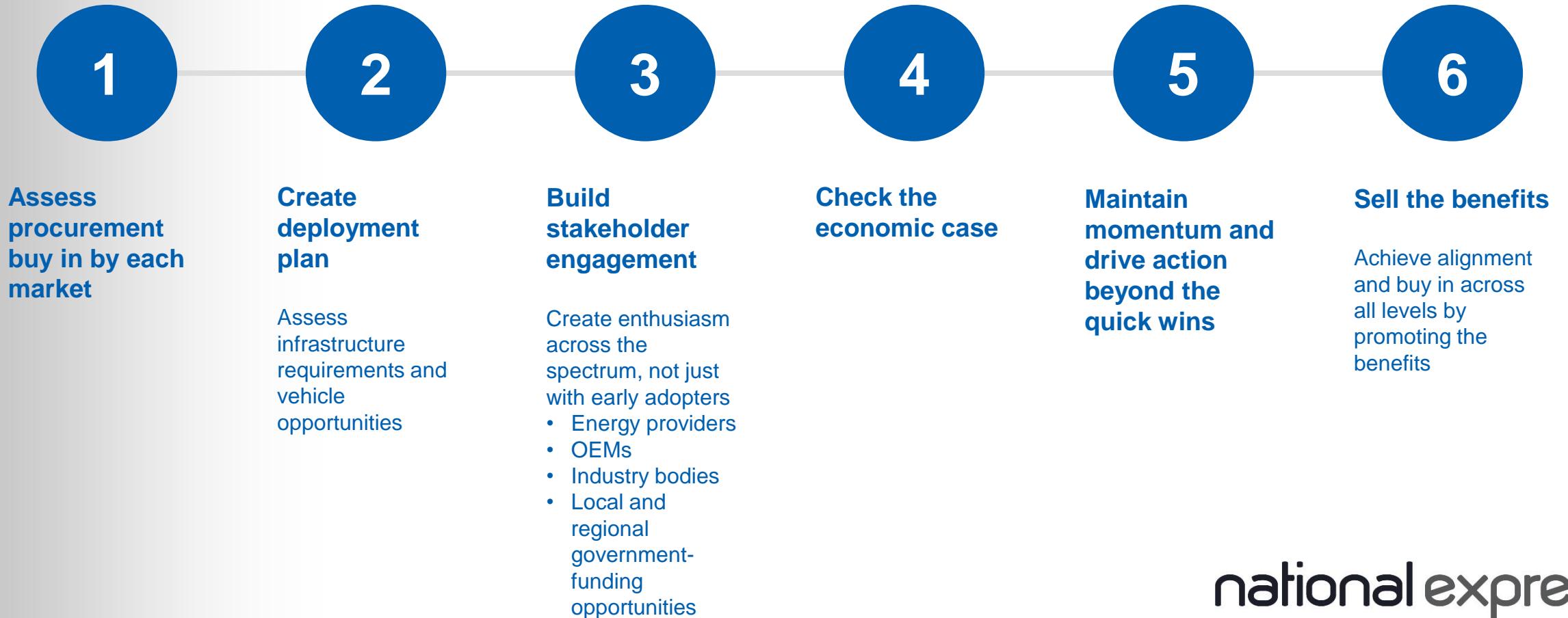
- Traction emissions/mpkm remains important for explaining the power of modal shift

- Ambitious new targets focus on reaching net zero quicker than our peers whilst considering regional market developments



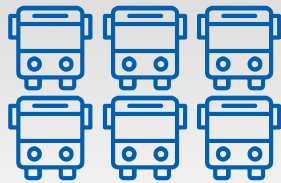
A market-based approach considers the local context and development, enabling NEG to act dynamically regarding any opportunities to decarbonise

Steps to implement change:





Hitting net zero goes beyond vehicle technology and incorporates how the business can truly minimise its adverse impact on the environment whilst prioritising the biggest impacting factors



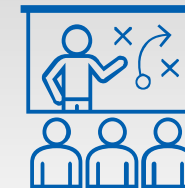
Product

- **90%-95% of our Scope 1 and 2 emissions** comes from our **fleet tailpipe** – the biggest focus for decarbonisation
- We have 27,000 number of vehicles across the group
- Fuel efficiency, vehicle technology, embedded emissions



Property

- **Large property portfolio** including a mixture of depots, coach stations and office space
- Energy and water consumed but also waste produced



People

- We have a global workforce of **44,500 people** who each will have a footprint and an impact
- Developing a positive environmental culture to drive behavioural changes

National Express' Triple P framework breaks down how each area can contribute to hitting the net zero target



Don't need to do everything all at once

Stay focused and stick to your strategy and approach

- There's a lot of noise; don't become deafened by it

A clear governance structure can drive activity forward

- Allocate clear deliverables
- Create a forum for discussion and collaboration

Make it relevant to the different areas

- Sell those benefits!

For further information

L.E.K. Global Corporate Sustainability Survey

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