



EXECUTIVE INSIGHTS

From Commitment to Reality: Overcoming the Corporate Sustainability Struggle

Organisations are increasingly making firm commitments to sustainability. CEOs, boards and leadership teams are putting sustainability at the heart of strategy, framing decisions in terms of environmental, social and human impact. Eighty-two percent of the FTSE 100 have committed to net zero emissions by 2050, and more than 700 of the largest 2,000 publicly traded companies have made net zero pledges.

Leaders recognise the immediacy and gravity of the climate challenge and the need to build a more sustainable future. There are multiple drivers.

Consumer sentiment is a significant factor. L.E.K.'s Sustainability Consumer Survey report showed that nearly half of consumers claimed to have switched brands or products due to concerns about sustainability, the environment or ethics. We also found that consumer products marketed as sustainable are delivering more than half of overall market growth, even though they make up less than 20% of the market.

Eighty-nine percent of investors have incorporated ESG into their investment approach, and approximately 35% of global assets under management – totalling approximately \$40 trillion – have a sustainable stance.

Regulatory regimes are evolving and becoming stronger, with demands for transparency, uniform reporting and the linkage of ESG and financial metrics. Cases in point are the UK's Task Force on Climate-related Financial Disclosures (TCFD) requirements, the EU's Corporate Sustainability Reporting Directive from 2024 onward and proposals for enhanced disclosure under development at the US Securities and Exchange Commission (SEC).

Employees, particularly younger ones, are prioritising sustainability, which has the potential to become a competitive advantage in recruitment and retention.

For all these reasons, a commitment to sustainability has the potential to drive long-term revenue growth and value for all stakeholders.

However, there is a significant gap between the commitment and the ability to achieve sustainability goals. While 82 FTSE 100 companies have committed to net zero targets, only 40 are participating in the Science-based Targets Initiative – considered the gold standard as regards the validation of emission reduction plans. Just 42% of the Climate Action 100+ focus companies include Scope 3 emissions, and only 17% have robust quantified decarbonisation strategies in place to reduce their greenhouse gas (GHG) emissions.

L.E.K.'s Global Corporate Sustainability Survey of 400 global C-suite and senior executives from firms of varied industries and scales found that turning those sustainability commitments into reality is challenging. While over 70% viewed sustainability as a growth driver, many report that their organisations are ill-equipped for the task – lacking essential skills, metrics and internal alignment around a common understanding of what makes for good environmental performance.

The survey identified the following barriers:

Lack of alignment across key stakeholders

According to the survey, the No. 1 barrier to organisations' ability to deliver on their long-term sustainability ambition is a lack of strategic alignment among internal and external stakeholders.

Concern about lack of alignment emerges as a significant issue across the research:

- Less than half of companies (45%) felt they had made strong progress when it came to having an executive management team and board that were fully aligned on the importance of the sustainability agenda and relevant priorities.
- Forty-seven percent reported that they struggle to balance the interests of different groups, such as communities vs shareholders, when making sustainability decisions.
- Fifty-one percent of the publicly held companies in the survey do not have an established approach for balancing the interests of different groups.

Financial, strategic, operational and reporting challenges

This lack of alignment is also reflected in other sustainability challenges.

The first is accountability and remuneration. There is more to be done to build effective accountability for delivery of ESG goals, including remuneration. Not having the right reward and incentives framework to drive behaviour, such as leadership pay that is aligned with sustainability KPIs, is the major weakness when it comes to delivering sustainability strategy: 43% of organisations feel this is the area where they are least prepared when it comes to delivering against ESG goals.

The second is the challenge of making complex trade-offs, especially between short- and long-term priorities. In the survey, 58% of respondents reported that there are significant differences of opinion within the leadership team on balancing short-term priorities with long-term ESG goals.

The third is the pressure of increasing scrutiny and escalating demands for transparency when it comes to ESG performance. Here, again, organisations are ill-prepared. The survey found that while 87% of companies say they are feeling pressure from investors for increased ESG reporting and better transparency, only 27% have any enterprise-level ESG KPIs in place, and within that group, just 3% have a full suite of KPIs in place.

To overcome the barriers, leaders are answering the 'how' questions to turn sustainability ambition into reality

It is clear that organisations have more to do to put capabilities in place to successfully implement their sustainability strategy. If they are to deliver, organisations must be able to make clear and integrated choices about what their goals are, where they will play in the market and what elements are necessary to design the solution and get it done.

While it is important to set aspirations by deciding on 'what' the company's goals are and 'where' it will play in the sustainability space — it is the 'how' questions that promise to have the greatest impact on turning sustainability aspirations into reality.

While priorities will vary by company and sector, we point to three areas where CEOs and other leaders should focus in order to integrate sustainability into strategy:

- **How to win:** Forty-eight percent of the leaders surveyed report that they do not feel their current product/service portfolio meets the needs of a more sustainable future. They also report that their No. 1 focus for sustainability action and investment over the next five

years is 'sustainable/services products and their distribution'. Aligning growth initiatives around products and services to address climate change and other critical ESG issues — and evaluating the implications for your supply chain and approach to M&A — will be critical.

- **How to configure:** Only 21% reported their teams have the skills needed to deliver their sustainability goals, and just 24% report they have the organisational flexibility and structure required to deliver. Leaders need to focus on building a smart and agile operating model that allows companies to stay ahead of sustainability-driven change and disruption. The model should support selecting and deploying new technologies in support of sustainability goals.
- **How to get it done:** The No. 1 improvement area for effective sustainability governance is ensuring that members of the executive team have the knowledge and skills required to deliver on ESG goals. That requires designing a best-in-class governance structure to inform sustainability choices on an ongoing basis. To support this, companies can undertake a skills review across leadership teams and boards. The goal of the review is to understand what skills are needed to deliver on the sustainability strategy and to identify the main gaps. Designing a sustainability-focused remuneration framework that is tailored to the specific ESG priorities and strategy of the organisation will also be key.

Additional steps towards 'operationalising' sustainability

A strategic approach to sustainability should aim to make it part of the fabric of the organisation. Dimensions to focus on include:

- **Sustainability education** to ensure executives have the necessary knowledge and skills
- **Building organisational awareness** of the sustainability strategy and driving it as deeply as possible
- **Embedding sustainability** into the organisation's brand, purpose, products and services
- **Making sustainability integral to culture** — establishing a mindset that future-proofs the company
- **Factoring the impact of sustainability into investment and capital allocation** — which will in turn drive a more holistic approach to sustainability
- **Understanding the impact of sustainability goals on the supply chain** — and managing the supply chain to enhance sustainability performance

A strategic plan to deliver on sustainability

Asking key questions and focusing on the right dimensions are all in the service of creating a strategic plan that overcomes barriers and delivers on the organisation's sustainability commitments. The plan should:

- **Drive strategic alignment** by establishing a common language, vision and goals for sustainability initiatives and articulating the strategic choices necessary to achieve them. These include the 'where to play' and 'how to win' choices.
- **Assess strategic choices** — prioritising those that accelerate sustainability goals (such as product/service portfolio, brand positioning, innovation stance, operations, supply chain and so on). The assessment should include the financial and non-financial benefits of each choice. The full leadership team should be engaged in the process.
- **Create an agile organisation** by identifying and addressing the requirements for new skills and capabilities (including training and recruitment) and establishing a flexible operating model, drawing on cross-functional teams, specialist service providers and partnerships, to handle sustainability disruption and change.
- **Establish KPIs** — defining what is required to achieve the goals and targets, setting the KPIs themselves, and creating data capture capabilities and systems to enable reporting and tracking.
- **Align remuneration** by tying compensation to the KPIs to reward sustainability progress and performance.

Today, just 'being in the game' is not enough when it comes to sustainability. Playing to win at ESG — and being on the winning team — has never been more important, both for the long-term value of the company and for the long-term future that will result from a more sustainable planet and a more equitable society.

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