



The evolving nature of the green agenda

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In recent years, climate-related issues have rocketed up the corporate agenda—a consequence of our increased scientific understanding of the dangers of climate change, and the new sense of urgency among both the general public and many national governments. But as these issues have become more prominent in the eyes of stakeholders, the questions being asked about them have started to subtly shift.

In order to better understand how the green agenda has evolved over time, we spoke to three sustainability experts from PwC. Celine Herweijer is the firm's Global Climate Change Leader; Emma Cox is Head of Purpose and the UK Sustainability & Climate Change Leader; and Louise Scott is the Director responsible for coordinating the firm's Global Sustainability Network.

How has the way that your clients think about climate-related issues changed over the last year?

Celine: There's been a huge shift over the last 12 months in thinking around climate change—and that's reflected best by the number of companies making concrete net zero commitments. We've been tracking these, and we can see that almost 300 large global companies have now made a net zero commitment. In the past, good practice in corporate climate action revolved around carbon disclosure, some level of carbon-cutting, and at best carbon neutrality including the use of offsets. But the net zero approach is a more ambitious, more science-led approach. It means absolute decarbonisation of operations and the value chain in line with a 1.5°C warming threshold. Achieving it requires substantial commitment to invest in innovation and business transformation.

Under the net zero paradigm, the focus is broader than just operational emissions; companies are compelled to think about the total emissions throughout the entire life cycle of their products and services, their supply chain, and their investments. That means that there's a much heavier focus now on emissions across the value chain. It also means that wider stakeholders from across the

business have to take on more responsibility for the business transformation required. Yes, the Chief Sustainability Officer or CSR Head is still important, but now you need core leadership roles such as your CFO, CIO, COO, and Chief Procurement Officer to shoulder more of the burden as well.

Emma: There's a trend at the moment towards organisations starting to look at sustainability in a holistic way. Partly, that means considering both the physical risks and the transition risks of climate change. It also means couching the topic not just as a set of risks, but also looking at it through an opportunity lens. CEOs are asking themselves how they can reconfigure their products as a lever for growth in a world that cares a lot more about sustainability. Businesses are considering what possibilities can be unlocked by new green technology—and what those technologies will mean for the size of their consumer market and for their various stakeholders.

There's a lot of interest right now in the question of how you properly measure an organisation's environmental impact. Companies are having to look at a lot of different hard-to-understand non-financial metrics, and synthesise them into a meaningful evaluation. There's a lot of work being done



now in developing new ESG metrics, partly driven by regulatory requirements, but also by the needs of the investment community. There are several different frameworks and formats now in common use—the question now becomes about finding ways to standardise those frameworks and make them more useful and more accessible.

Louise: It definitely feels like there's been a pivot recently in terms of the types of questions organisations are asking themselves about sustainability. They've done a lot of the strategic thinking, for the most part; now they're at the stage of thinking about the operational transformation requirements that this thinking entails.

And what do you see as the key drivers behind those changes you mentioned?

Celine: A lot of the energy around climate issues is being driven by the global investment community. Investors have increasingly recognised the materiality of climate risks, are trying to decarbonise their portfolios, and are engaging with their portfolio companies to ensure they're thinking about these issues. Today, investors representing over 45 trillion dollars in assets under management have pledged to take action on climate change; that's close to half of the total global assets under management.

Emma: Different sectors have different motivations for caring about climate issues. Oil and gas companies can see that they need to fundamentally reinvent themselves and transition to clean energy sources. In financial services, you have the investor angle to consider. Investors are paying more and more attention

to sustainability performance; sustainability reporting is now a 'must do', not a 'nice to have'. Within each individual sector, there's a sort of domino effect that happens; once some companies start taking these issues seriously, the peer pressure compels their competitors to do the same.

The identification of climate impacts is now seen as a key part of any business's value creation story. If you're a private equity house or an investor, you're not going to be able to make smart decisions any more without access to that sort of data. That has obvious implications for our services at PwC; we have to factor climate considerations into any piece of due diligence work we do, and into how we would help a client assess a potential acquisition target.

And what actions has PwC taken in order to enable it to help its clients address these challenges?

Celine: A few years ago, we set up a dedicated sustainability and innovation practice—because we believe that many sustainability issues can be tackled by deploying rapidly advancing emerging technologies in the digital, physical, and biological domains. We are undertaking lots of research, including with Big Tech and with partners like the World Economic Forum, on how digital technologies like machine learning, IoT, and blockchain can be applied to sustainability challenges. Blockchain, for example, enables decentralisation of systems, and the transition to a low carbon economy will require us to move from centralised to decentralised energy and water grids. Then you also have exciting innovation in the physical and biological domains including new fuel sources;

advanced materials for renewable energy generation; new material innovations in circularity or biotech solutions, and carbon storage and capture technology; and so on. There's a lot of exciting innovation happening right now across both these two categories.

Emma: Our suite of services at PwC allows us to address client challenges at lots of different points in their sustainability journeys. Any business trying to deal with questions of sustainability will find that they have to do a lot of upfront strategic planning work, and we can support them there, but we can also help them with some of the implementation challenges further down the line. And, of course, there's the reporting element that needs to be considered as well. We work with a wide variety of clients; some of them are on the more sophisticated end of the spectrum when it comes to energy transition, and others are only at the start of their journey. So, obviously, the types of products and services those different clients will need are going to vary a lot, and we have to make sure our service portfolio is broad enough to encompass all of them.

So do you see sustainability as more than a distinct set of services, and instead as something that needs to be factored into all of the work your firm does?

Celine: For the last decade, professional services firms could get away with treating sustainability as a niche issue and isolating it to a single practice or service line within their organisation. That approach doesn't work now. In order for net zero to become a reality, sustainability is going to have to infuse everything that businesses



do; so if we're doing a strategy project, we need to make sure our strategists have at least a baseline awareness of sustainability issues. You can't realistically be doing work in the transportation sector, for example, without some understanding of emerging regulations and new technologies, from new battery technologies to sustainable fuels, connected autonomous vehicles, and so on. So, across the board, we're going through a certain level of sustainability upskilling—in the same way that we went through a period of digital upskilling for all of our people this past decade.

Ultimately, society needs to get to net zero. And that means that the transition to net zero has to be a core consideration of any piece of growth strategy work, any digital transformation programme, and any supply chain transformation. It also impacts on innovation strategy and M&A; we've recently carried out research that shows a huge amount of corporate venture capital is being funnelled towards the decarbonisation agenda right now, in various different forms. What that means for us at PwC is that as well as building specialist sustainability expertise, we are embedding sustainability into all of our other service and industry capabilities.

What implications has that mindset had for the skills you need access to within your business?

Louise: We know that we have to go through a level of upskilling to ensure that sustainability expertise is embedded across our entire organisation, rather than just located in a single practice. But we're not the only ones dealing with that issue—our clients are also

going on that upskilling journey, so there are opportunities for us to work together and support each other on that education piece.

Emma: Given the range of potential impacts and opportunities for climate action across business and society, we are not attempting to have deep expertise on every piece of green technology within our organisation; we can use our network and specialist business advice to build alliances and partnerships relevant to our clients and markets, bringing together expertise from both inside and outside of our business to tackle the big challenges our clients are facing. There are start-ups in garages right now making amazing technology breakthroughs—our job is to stay agile enough so that we can find those people and work those technologies into the solutions we put in front of clients.

What role do you see for technology in enabling your clients to address their sustainability challenges?

Celine: A lot of companies are making decarbonisation commitments right now that aren't achievable in the current technology landscape; in other words, they're betting that the technology is going to come, because it has to, if we as a society are going to have any hope of making the transition to a low carbon economy. But not every business right now fully understands that this isn't just a technology problem, and that they need to be thinking about this as a full business model transformation exercise.

CEOs are having to make a lot of bets right now on the future of technology. But we're now at the point where people are realising

that sustainability is much more than just an infrastructure or technology problem. Businesses are starting to move from the commitment phrase through to thinking about what those commitments actually mean in terms of business transformation.

How much does geography influence the way that your clients think about climate change?

Louise: Our clients in Europe are slightly ahead of the curve in dealing with sustainability issues, relative to other markets. That's partly the result of the proactive approach the EU has taken to environmental and carbon legislation, which has created a groundswell of momentum behind the topic.

Celine: The US is an interesting market when it comes to sustainability and action shifts with each administration. At the federal level things are quiet right now on climate change, but there is a lot of action at the city and state level, and in corporate America including from Big Tech, as well as retailers and consumer brands. Companies have decided they're not going to wait for regulation to act, and have come out with strong net zero commitments anyway.

You mentioned climate risk earlier; do clients, in your experience, care more about the physical or the transition risks associated with climate change?

Celine: The physical risks of climate change are obviously important—and come even more to the forefront of public consciousness whenever there's any sort of catastrophic weather event. But for me, the game changer right now is the growing awakening around transition risks.

Every industry is going to have to go through a process of radical decarbonisation, and the next 10 years are going to be a period of profound change given we need to halve global emissions within the next two business cycles. For many companies, that means rethinking their entire operating model. And in some cases they're having to make bets now based on incomplete information around future technologies. If you're an airline, for example, a huge amount of innovation is needed beyond fuel efficiency, and ultimately, sustainable aviation fuels and electrification of commercial aircrafts have to become a reality, even if we feel far away from that right now.

How has COVID-19 influenced client attitudes towards sustainability?

Emma: COVID is both an opportunity and a threat for the sustainability agenda. Obviously, if a company is fighting for its short-term survival, opportunities to think about any sort of transformation are going to be limited; a lot of businesses are dealing with immediate material challenges around protecting jobs and maintaining revenues, and will feel this does not leave much space to invest in decarbonisation. But I

think COVID has also acted as an accelerant of discussion around climate risk, and we're starting to see talk of a 'green recovery' after the pandemic, particularly in European markets. If that's going to turn into a reality though, then it needs to be supported heavily by governments. We need to put in place an incentive framework to ensure that businesses fully consider sustainability while creating their post-COVID recovery plans.

The idea of a 'green recovery' from COVID is not just about the environment; we should also consider issues of inequality and social justice. In any crisis, the hardest hit are often the poorest in society—and that's been particularly true during the pandemic. Coming out of this crisis, some businesses are going to have a society-first lens, whereas others will be looking at their recovery through more of an environmental action lens.

I think that COVID has forced us all to ask questions about our purpose and our values. In a sense, it's accelerating the transition away from shareholder capitalism and towards stakeholder capitalism—a model where businesses are compelled to think more seriously about how their operations affect a wide range of stakeholders.

Lastly, how have you at PwC turned this thinking about sustainability inward and applied it to your own organisation?

Louise: We're as concerned about our own sustainability as an organisation as we are about our clients', and we've taken several important steps over the last few years on this front. We're doing a lot of thinking right now about what our sustainability journey will need to look like over the next few years and decades, and recently made a worldwide science-based commitment for PwC to reach net zero greenhouse gas emissions by 2030. This includes a switch to 100% renewable electricity in all territories, as well as energy efficiency improvements in our offices and halving the emissions associated with business travel and accommodation within a decade.

This thinking influences how we invest in and develop our own services too. We're building on existing skills and experience in sustainability and net zero transformation, to infuse science-led climate analysis into our services and scale our capabilities to support clients across our advisory, tax, and assurance practices. As governments and companies look to rebuild post COVID, there is international consensus that a focus on ESG considerations, purpose, and how we can build back better will be fundamental. Our network means we have a huge opportunity to support and accelerate the transition to a net zero future together with clients and society.



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