IS YOUR STRATEGY SUSTAINABLE?

HLB SUSTAINABILITY REPORT 2021

HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

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"GOING FORWARD, SUSTAINABILITY NEEDS TO BE BAKED INTO YOUR STRATEGY AT ITS CORE, NOT AS A SUPPLEMENT OR AN ADD-ON. A SOUND BUSINESS STRATEGY IS ONE WHICH HAS A SUSTAINABILITY PILLAR BUILT IN."

Manosij Ganguli, Global Sustainability Advisory Leader, HLB

EXECUTIVE SUMMARY

MAKING SUSTAINABILITY AN OPERATIONAL REALITY

The call for sustainability has been loud and clear. Legislators, investors, stakeholders, and customers are pressing businesses to tilt their operational compass towards "leaner and greener".

91% of leaders believe that how they respond to events that impact society reflects on their brand and overall customer perception of their business.[1]

Whatever the rationale for hesitation is, the fact remains: sustainable businesses are better positioned for thriving in the new economic reality — one where sustainable businesses profit from governmental incentives, from market transition and emerging pockets of green growth.

77% of HLB survey respondents see opportunities to profit in the low carbon economy of the future.[2]

But how do you reroute your business strategy towards sustainability and eventual de-carbonisation? Start with small, but decisive actions.

HLB has developed a three-step roadmap, aimed at helping you determine a strategic vector for sustainable development, set your baseline, input transformation coordinates, and effectively monitor, report, and profit at every leg of your journey.

1, 2 HLB International, 2021. HLB Survey of Business Leaders 2021: Achieving the post-pandemic vision: leaner, greener and keener.

STEP ONE

Baselining. Understand your starting point. What imprint does your business leave today and how will it contribute to your future operations?

1. Carry out a materiality assessment
2. Use a carbon calculator to find your business imprint
3. Perform risk mapping and review of the risk register
4. Set target outcomes and milestones

Technologies that can help: Carbon calculator to start off with, but other tools and technologies like digital platforms, IoT, Big Data Analytics, AI, will also play an important role.

STEP TWO

Business model realignment. A journey towards sustainability presents an array of opportunities to reshape your business towards a new ideal and tap into emerging opportunities for innovation and growth.

1. Assess opportunities for sustainable procurement and sourcing
2. Seek better logistics and distribution opportunities
3. Look into leaner manufacturing practices
4. Consider aspects of circular economy
5. Reduce waste and redundancies
6. Explore new product and services offerings

Technologies that can help: Cloud, electrification, alternative fuels, e-commerce, payment digitisation.

STEP THREE

Monitoring and reporting. What gets measured gets done. Treat sustainability and CSR reporting as an investigative opportunity for uncovering new levers, rather than "checkbox" activity. Employ new reporting standards to stay compliant and continue strategic business realignment.

1. Consolidate and collect CSR data
2. Select the optimal tools and reporting frameworks
3. Review government incentives to accelerate change
4. Monitor the regulatory changes

Technologies that can help: RegTech, AI, RPA and Process Automation Software, Sentiment Monitoring Tools.

A SUSTAINABLE STRATEGY FOR GROWTH: POWERED BY TECHNOLOGY

WHY ARE WE HERE?

Sustainability (n.) — 1) an equilibrium of natural resources usage versus renewal to offset climate change; 2) non-negotiable operational priority for leaders in every industry.

Over the last century, humankind has made tremendous technological progress. Most recently, digital technology has prompted unprecedented transformation, interconnectivity, and human advancement across economies. However, the digital realm can neither exist, nor prosper unless we address the problems created during the previous two epochs: the Agricultural Revolution and the Industrial Revolution.

Five thousand years of extensive farmland usage has left our soils degraded and natural biodiversity disrupted. Wildlife populations have decreased by 60% since the 1970s[3] due to growing consumption of food and natural resources — an equivalent to emptying the human populations of North and South Americas, Africa, Europe, China, and Oceania combined.

The Industrial Revolution further disrupted natural ecosystems, expelling large amounts of carbon dioxide and subsequently — triggering global temperature rises. Haphazardous reliance on polluting energy sources such as fossil fuels and unrestrained substance emissions to the atmosphere, waterways, and soils have cast a severe toll on the planet.

3 WWF, 2018. Living Planet Report 2018
4 HLB International, 2021. HLB Survey of Business Leaders 2021: Achieving the post-pandemic vision: leaner, greener and keener

91%

OF BUSINESS LEADERS SURVEYED IN OUR LATEST ANNUAL GLOBAL SURVEY ARE CONFIDENT IN THEIR ABILITY TO SUCCESSFULLY STEER THE BUSINESS IN A NEW DIRECTION IN RESPONSE TO THE IMPACT OF COVID-19.[4]

Halting further damage is a tough undertaking. However, if nothing is done, humanity will suffer a greater setback. All the striking scientific and technological progress we've made so far will be undercut by simple, yet brutal disruptions — insufficient access to clean water, food shortages, and unlivable atmosphere pollution.

To add to this macro-challenge, globally we are still grappling with the consequences of another, high impact but low-probability event: the global pandemic. Understandably, the health crisis has overshadowed the climate agenda. However, many leaders are treating the pandemic as a wake-up call to reorient their businesses towards a more sustainable future.

91% of business leaders surveyed in our latest annual global survey are confident in their ability to successfully steer the business in a new direction in response to the impact of COVID-19.

Up till recently, global governments have been slow to act on warnings from scientists and environmental campaigners. The release of the latest Intergovernmental Panel on Climate Change (IPCC) report, has sent alarm bells ringing around the risks of breaching the 1.5°C global temperature increase (expected in just over 10 years time). The likelihood of increasingly intense heat waves, flash floods and wildfires is forcing policy makers to act.

The UN's Climate Change Conference of the Parties (COP26), hosted by the UK, presents a pivotal moment of opportunity to reach a global agreement on critical reductions in CO_2 emissions.

More fundamentally, nearly every industry is under grassroots pressure from consumers to go "cleaner and greener". 6 in 10 shoppers are willing to change their habits to reduce their environmental impact[5]. The decisions business leaders make every day, to adapt and survive, need to be aligned to society's expectations.

91% of leaders believe that how they respond to events that impact society reflects on their brand and overall customer perception of their business.

We'd like to thank the experts we've consulted for their valuable insights. This has informed our approach to designing a sustainable strategy — one which is within reach of most of our clients across the HLB network.

5 IBM, 2020: Meet the 2020 consumers driving change

A SUSTAINABLE STRATEGY FOR GROWTH

Up to now, having a sustainability strategy has been seen by many businesses as an 'add-on'. Opting in resulted in some benefits. Opting out led to no dire consequences. The social, environmental and regulatory environment has changed rapidly. Postponing action will require more radical (and costly) transformations.

"Going forward, sustainability needs to be baked into your strategy at its core, not as a supplement or an add-on. A sound business strategy is one which has a sustainability pillar built in" Manosij Ganguli, Global Sustainability Advisory Leader, HLB.

The conversations should start at the board level. You will need to locate the hidden value opportunities within the conundrum of shifting market trends and current operational priorities. Doing so often requires a reset of your corporate vision, mission, and goals.

It's time to re-evaluate your purpose: what are you in business for? What makes your company unique? What impact do you want to have on the lives of customers, employees, the environment, and the communities in which you operate? Businesses now need to determine how their vision, current operational principles and values align with those shared by the societies they serve. Everything that the business does then needs to be oriented towards supporting your purpose.

"What we did at the beginning of 2020 was to lay out a new purpose for the company, which is to re-imagine energy for people and our planet, supported by our sustainability aims and carbon aims. That has provided the framework for our new company strategy. So in effect, we started with the purpose of the enterprise with sustainability at the core." Dominic Emery, Group Chief of Staff, bp.

Every industry is facing the imminent need to transition from aggressive resource consumption to renewal, and ultimately — progressive decarbonisation. Placing sustainability at the core of your pandemic recovery and wider operational strategic reset will foster competitive advantage through the next growth cycle.

For many businesses the scale of the transition is daunting. However, leaders now face the challenge of having to take action or risk future survival. There will be no winners in a climate crisis.

The long-term gains from seeking a sustainable business strategy now outweigh any downsides or objections. Even if you are far from a climate activist, the facts are hard to ignore. "I think there's going to be a better market going forward for products that are carbon neutral, as opposed to ones that are full of carbon,'' says Kevin Dancey, Chief Executive Officer (CEO) of the International Federation of Accountants (IFAC). "Consumers today are different. 30 or 40 years ago when you looked at a product, we didn't know what the content was, calories, sugar, fat content.

Now we do. I wouldn't be shocked if, at some point, we would also look at the carbon content of products being sold. Because I think there's going to be demand for that from consumers. I think there's going to be demand for that from regulators."

In fact, sentiment from business leaders in our 2021 annual survey supports an opportunistic outlook. 77% of respondents see opportunities to profit in the low carbon economy of the future.[6]

So what can you do to transition to a more sustainable and profitable business model?

In this report, we draw a three-step roadmap for setting forth a sustainable strategy for growth — today and in the decarbonised future:

1. Taking a snapshot of your baseline
2. Targeting a sustainable business model
3. Monitoring and reporting to realise a sustainable vision

At each leg of the journey, we looked at the role of technology for supporting sustainability transformations and how you can deploy it to speed your transition, mitigate risks, and build out opportunities for growth in the new, more climate-neutral business ecosystem.

SUSTAINABILITY QUESTIONS TO ASK TODAY:

1. **DO YOU HAVE A STRATEGY THAT INCLUDES SUSTAINABILITY OR A SUSTAINABILITY STRATEGY ON THE SIDE?**
2. **WHAT IS YOUR PURPOSE AND HOW IS THIS ARTICULATED TO YOUR STAKEHOLDERS?**
3. **HOW WILL INACTION AFFECT YOUR INDUSTRY, OPERATIONS, AND MARKET POSITIONING?**

6 HLB International, 2021. HLB Survey of Business Leaders 2021: Achieving the post-pandemic vision: leaner, greener and keener

STEP ONE

TAKING A SNAPSHOT OF YOUR BASELINE

To arrive at the right destination you need to set the proper coordinates — the baseline you have today. Once you understand your starting point, you can re-assess the scope of charge required to reach new milestones. What should be done differently in the future to reduce your carbon footprint? What investments can mitigate short-term risks and ensure longer-term business stability and growth? Which processes, systems, and actions will become redundant in the future? What new market could you be in?

These are the questions percolating on the surface. To get the answers, you will need to map out your strategy against new target outcomes. A good first step may be to review your risk register and remap current and emerging risks, prompted by regulations, market shifts, and changes in the operational strategy. Perhaps then you are well-placed to carry out a material assessment of the business to understand how investments in sustainability can be rebalanced against future gains. Finally, you may be able to benchmark your new initiatives against desired sustainability outcomes to determine your carbon impact.

Using a carbon calculator can help to find the business imprint.

Your goal is to find levers for maximising the impact at targeted areas — initiatives that can drive sizable short-term reductions in emissions and potential cost savings for reinvestment in more complex, long-term sustainability projects.

Manosij Ganguli, HLB's Global Sustainability Advisory Leader notes "Progress towards a more sustainable business strategy will require you to rethink what you measure and reset your reporting baseline."

Not all companies start with a set of clear-cut metrics to measure. What's more, to select the right targets and peg them to relevant metrics, accurate data is required. Access to it is often constrained or inconsistent.

"Conceptually it is easy [to become sustainable], but getting down into the details, it's going to be hard, and getting into the data and information is going to evolve", says Kevin Dancey, CEO of the IFAC.

Estimating the overall resource consumption by a company may appear to be an easy task for a CFO. However, when you add in what happens further in the supply chain it's a more intricate matter as downstream visibility remains limited.

For instance, both lithium and cobalt are essential materials for battery technologies which are key to the transition to electric vehicles. However, there is an environmental cost around their extraction including contamination of water sources near mines and, downstream, challenges around recycling material at its 'end of life' stage. For the above reasons, scientists are now looking at alternative materials such as silicon and lithium metal.

Even the most transparent and sustainability-oriented companies face tremendous difficulties with collecting accurate baseline data and enforcing proper standards across the board.

The task of data gathering is paramount. Some aspects can be mapped and uncovered through your financial records and operational intel. You are likely to want to track your direct carbon impact including emissions from company facilities and company vehicles, as well as emissions from purchased electricity, heating, and cooling. There are also emissions from sources not directly owned or controlled by you, but are nevertheless, consequences of your business activities. These might include purchased goods and services, employee travel and commuting, impacts of natural resources extraction, water usage and waste footprint, logistics, transport, and distribution of goods through the supply chain. Finally, businesses should not forget the impact of sold products, packaging, and end of life treatment of products sold. Taking stock of these isn't easy but provides a good starting point for your baseline. Using a simple carbon calculator, now provided by most governments, is a solid first step.

Once you have the baseline numbers, you can then move forward to more advanced strategic decisions. What reductions can you pursue at relative ease to get a step closer to your sustainability milestones and targets? How will new elements of your strategy contribute or deduct from your baseline? Does pursuing (or not acting on) certain sustainability-oriented elements of your new strategy leave you exposed to new risks? Combine the above information into a refreshed risk register and strategic outlook plan.

"PROGRESS TOWARDS A MORE SUSTAINABLE BUSINESS STRATEGY WILL REQUIRE YOU TO RETHINK WHAT YOU MEASURE AND RESET YOUR REPORTING BASELINE."

Manosij Ganguli, Global Sustainability Advisory Leader, HLB

WE RECOMMEND ASKING THE FOLLOWING QUESTIONS

1. **WHAT ARE YOU MEASURING IN YOUR BUSINESS?**
2. **ARE YOU MEASURING WHAT YOU CAN? OR ARE YOU MEASURING WHAT YOU HAVE TO FOR REGULATORY PURPOSES? OR ARE YOU MEASURING WHAT REALLY MATTERS/DRIVERS OF BUSINESS SUCCESS IN THE LONGER TERM?**
3. **ARE YOU MEASURING YOUR SOCIAL, ENVIRONMENTAL IMPACT? HOW DO YOU MEASURE YOUR CARBON IMPACT? WHAT ARE YOUR COMPETITORS DOING?**
4. **WHAT GAPS ARE YOU AWARE OF IN YOUR BASELINE MEASUREMENTS?**

USING TECHNOLOGY TO SET A BASELINE

Many businesses already have some of the data they need for understanding their current carbon footprint, but lack the technology and reporting capabilities for consolidating these insights. New technologies such as IoT (Internet of Things), AI, machine learning and big data analytics will aid in generating more advanced operational measurements.

DEPLOYING PLATFORMS TO CONNECT

The benefits of moving your systems into the cloud are not new. Over the last decade, businesses have been capitalising on the advantages that faster, collaborative, access to data analytics, improved operational agility, and a higher degree of security cloud-based systems have brought across functions. However, the migration to the cloud has been uneven. Organisations now manage an extended tech-estate hosted in hybrid environments — on-premises, in private, and public clouds — and a growing footprint of business applications. Due to this, baselining data often remains trapped in disparate systems.

To collect the metrics you need, you might need to conduct a data audit to determine which systems host the data you require. Then consider adding integrations to either connect

the required data source to a business intelligence tool or fuse data from multiple sources in a cloud repository — a data lake or a data warehouse. In fact, deploying cloud platforms can also help to reduce your carbon footprint and costs for your business. Research suggests that moving to the public cloud could deliver better energy efficiency (most of which are now minimal to zero-carbon) plus a 30% to 40% reduction in total cost of ownership[7].

REPURPOSING YOUR DIGITAL AUDIT

Similarly, technology is reshaping how your audit is conducted. Social distancing required in some jurisdictions over the past two years, has further accelerated the move to digitise the auditing process. For many clients a digitised audit approach involves automating and enhancing existing audit processes. These, along with new collaboration and sharing tools have helped to reduce the 'friction' at a very busy time of year and, of course, travel requirements. Going forward, emerging technologies such as AI, machine learning, IoT devices, and drones are likely to have a bigger impact on how audits are performed. As you reset your baseline, speak to your auditors about how their new systems might help you to track and analyse the data-points you need to provide your CSR reporting. Automating this will help you to better report on your sustainability objectives as well as audit quality, even perhaps helping to identify anomalies or fraud.

UNDERSTANDING YOUR ENERGY CONSUMPTION

Determining your energy usage patterns is the easiest step any business can do to understand their current "liabilities". Larger firms may use an energy management system that can record current consumption patterns and shifts, as well as provide you with an accurate baseline. Small-to-medium sized businesses often struggle to obtain the right numbers from an energy provider or source them from disparate business systems.

Understanding your carbon numbers isn't complex. Think of all the ways your business uses electricity and fossil fuels at every step of your supply chain — to power commercial locations or offices; keep your tech systems up and running; transport raw materials and products across sites. Request your business partners — energy providers, logistics operators, and commercial building managers — to provide you with the current numbers on energy consumption and/or fuel usage. You can then use publicly available sources of emissions factors such as Defra for transport, electricity and waste in the UK and the EPA for the same in the US to interpret how your current resource

7 Accenture, 2020. The green behind the cloud

usage contributes to carbon emissions. Alternatively, you can ask HLB for our tailormade carbon calculator, which helps businesses understand their carbon footprint. Not only that, in our detailed analysis, we can help you understand what and how you can reduce your carbon footprint going forward.

USING IOT TO COLLECT GRANULAR INSIGHTS

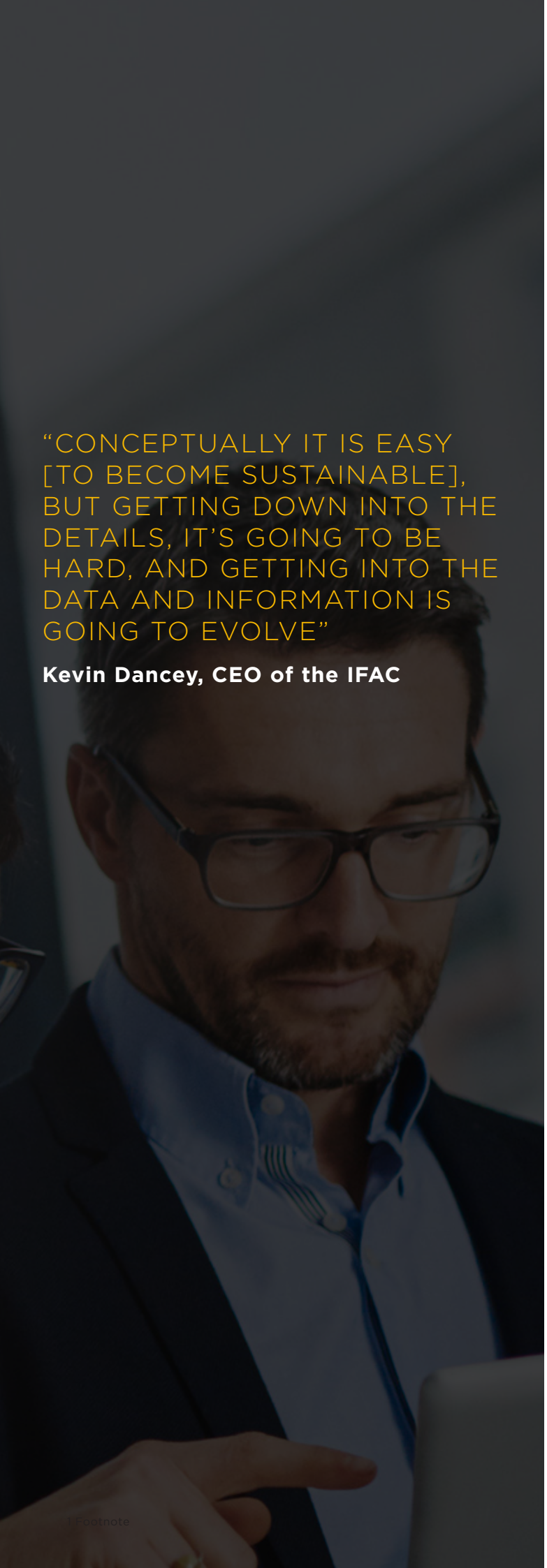
Compact, customisable, and growing largely affordable, IoT devices can provide 24/7 monitoring capabilities of energy, water, and heating consumption on-premises. Such connected devices can enable remote heating, ventilation, and air conditioning (HVAC) automation in commercial buildings and manufacturing facilities. By measuring and analysing the energy patterns, you can identify key areas of waste and more importantly — great sources of innovation and transformation in how you do things.

Bosch recently unveiled a Balancing Energy Network solution — an AI-powered energy management system that helps collect and process energy usage data from all connected sensors. Using the Balancing Energy Network, businesses can precisely map on-site energy flows, locate opportunities for carbon emission optimisation, and even connect to a marketplace of renewable energy service providers.

BIG DATA ANALYTICS AND AI AND MACHINE-LEARNING TECHNOLOGIES

Big data and analytics solutions could prove a big help to reconcile baseline data collected from other sources with the sustainable trajectory you are attempting to shape. AI-powered systems are uniquely capable of analysing massive volumes of unstructured data and generating actionable recommendations, which you can use to inform your internal strategy and external reporting. Most of your baseline measuring and reporting can be augmented and automated with advanced analytics models.

AI and machine-learning technologies are already helping businesses to calculate and optimise logistics operations. Predictive systems use historical data to estimate fuel usage patterns, locate inefficiencies in loading and routing. In addition to reducing fuel usage, their systems are monitoring and then predicting prefered routes based on historical drive times, traffic patterns and weather, reducing the time products spend in transit and vehicle emissions. Use advanced analytics to locate value-added business opportunities within their energy, supply chain, and transportation data.



"CONCEPTUALLY IT IS EASY [TO BECOME SUSTAINABLE], BUT GETTING DOWN INTO THE DETAILS, IT'S GOING TO BE HARD, AND GETTING INTO THE DATA AND INFORMATION IS GOING TO EVOLVE"

Kevin Dancey, CEO of the IFAC

1 Footnote

WE RECOMMEND ASKING THE FOLLOWING TECHNOLOGY QUESTIONS:

1. **WHAT TECHNOLOGIES HAVE YOU ADOPTED IN YOUR BUSINESS TO POWER YOUR TRANSFORMATION STRATEGY?**
2. **ARE YOU USING AI AND IOT TO ALERT YOU TO POTENTIAL CLIMATE RISKS TO THE BUSINESS?**
3. **WHAT'S IN PLACE IN YOUR BUSINESS TO AUTOMATE ROUTINE AND REPETITIVE ACTIVITIES, CONNECT PEOPLE/CUSTOMERS IN NEW WAYS AND REDUCE WASTE/POLLUTION/CARBON IMPACTS?**

STEP TWO

TARGETING A SUSTAINABLE BUSINESS MODEL

Baseline metrics are your travel coordinates. Your next step is to create a roadmap, leading you towards the final destination — a more sustainable long-term business model designed for a net-zero economy. Along the way, you should also be ready to grasp opportunities for innovations and growth drivers.

Every business has a different starting point and will need a unique pathway to a decarbonised future. But there are some universal business areas worth addressing — supply chain management, logistics, manufacturing, and product development.

RE-THINKING PROCUREMENT AND SOURCING

Multinational corporations are the first to admit that the complexity in their supply chains makes visibility and control more difficult, particularly when it comes to a focus on improving sustainability. Commit to improving your downstream visibility first. Can you collect baseline data from lower-level suppliers? Is it possible to hold them to the same environmental standards as top-tiers?

If you cannot grapple with achieving full visibility into the lower levels, perhaps it's to trim your supply chain. Move to near-sourcing from more local suppliers (reduce the transit miles) and thereby remove redundant and underperforming non-target compliant partners. Next, proactively engage your supplier relationship management and ask about your supplier's environmental policies and where they are in implementing eco and labour-friendly best practices. Then, set and communicate sustainability targets for all tiers of your supply chain and closely monitor their performance. Apply a supply chain due diligence principle of "check, act, and review" to assure the integrity of your supply chains.

SEEKING MORE EFFICIENT LOGISTICS AND DISTRIBUTION

Reassessing your approach to long-distance freight transportation, especially by heavy goods vehicles (HGV), is another priority. Electrification in the logistics sector is underway. FedEx plans to electrify 50% of the parcel pickup and delivery fleets by 2025. Then gear up for 100% electrification by 2040 to achieve carbon neutrality. DHL expects to electrify 60% of last-mile deliveries by 2030. Talk to your partners about emerging net-zero transportation options.

Flexible distribution product strategies such as e-commerce, click-and-collect, pay-per-use product rentals, and unattended retail solutions further

"LOOKING AT STRATEGY IS LOOKING AT OPTIONS FOR THE FUTURE […] AND HOW TO POSITION YOUR BUSINESS TO SURVIVE. A LARGE MAJORITY OF COMPANIES DON'T MAKE THE RIGHT BETS AND THAT'S WHY YOU SEE CONSTANT TURNOVER".

Kevin Dancey, CEO of the IFAC

provide great possibilities for rebuilding the supply and distribution, in tune with the market demands and ecological imperatives. We found that 59% of global leaders plan to reassess their supply chain to increase sourcing proximity this year. Perhaps to both minimise the risks of supply chain disruption and reduce the carbon imprint.

LEAN MANUFACTURING

Businesses with heavy investment in old technologies, be it legacy data centres or outdated pressing machinery, could be well-positioned to leap-frog competition via incentives for greener operations. From significant tax credits to grants and direct investments, there is help for businesses seeking sustainable transformation. Over 89% of businesses in China and 81% in the UK are making changes to profit from the low-carbon economy in the future, both through strategic profit reinvestment and institutional support.

REDUCING WASTE AND REDUNDANCIES

Every manufacturer has the opportunity to reduce waste and redundancy through comprehensive data collection, analysis, and subsequent optimisation.When remapping your value chain processes, look into ways to cut back on waste and pollution via materials reuse and resource regeneration. You may also want to explore the feasibility of adopting certain aspects of the circular economy and map the opportunities scaled implementation can unlock. A circular strategy can drive tangible improvements. Ikea, for example, already infuses at least 10% of recycled materials into new products. By 2030, the retailer plans to have 100% of products and packaging made from renewable or recyclable materials. To speed up material circulation, Ikea introduced buy-back customer schemes.

INVENTING COMPLETELY NEW PRODUCT OR SERVICE OFFERINGS

The transition towards net-zero presents a springboard of opportunities for new product and service offerings of the future. New eco-brands are emerging, such as Thinx, Cariuma, and Pela, amongst many which are both carbon-neutral or negative and finding huge commercial success in the process. Beyond Meat, for example, spotted an opportunity to address four growing global issues: human health, climate change, constraints on natural resources, and animal welfare and harnessed the consumer desire to shift away from animal to plant-based protein to create a completely new food product. Treat your journey towards de-carbonisation as an opportunity to reshape your business model to a new ideal. Consider how new sustainable product or service launches can help fund your transition.

WE RECOMMEND ASKING THE FOLLOWING QUESTIONS:

1. HOW DOES THE IDEAL MODEL OF YOUR BUSINESS LOOK IN THE FUTURE? ARE YOU ENGAGING IN SCENARIO MODELLING TO UNDERSTAND THE POSITIVE IMPACTS DIFFERENT OPTIMISATIONS CAN BRING?
2. ARE YOU SEEKING OUT NEW PARTNERS FOR GREENER PROCUREMENT AND SOURCING?
3. DO YOU HAVE A PLAN FOR REMAPPING YOUR SUPPLY CHAIN, BASED ON YOUR NEW DECARBONISING STRATEGY AND REFRESHED PURPOSE?
4. HOW CAN YOU ADAPT YOUR MANUFACTURING CAPABILITIES TO DELIVER "GREENER" PRODUCTS WITH LOW WASTE AND/OR DELIGHT CUSTOMERS WITH MORE INNOVATIVE OFFERINGS?

USING TECHNOLOGY TO ACCELERATE SUSTAINABLE BUSINESS MODEL TRANSFORMATION

Digital technologies help us make better sense of physical environments — which now need restoration and preservation. These digital investments could help to accelerate your transition.

IMPROVING SUPPLY CHAIN SECURITY AND VISIBILITY

At present, only 21% of supply chain managers[8] rate their supply network as "highly resilient" — such that provides comprehensive visibility and sourcing agility. Constrained downstream views and lack of data exchanges between different participants in the chain breed a host of operational issues — overproduction, unnecessary transportation, non-value added processing, murky ethical practices at the lowest levels, and missing provenance data among others.

What is needed to achieve better supply chain visibility and, by proxy, knowledge of your carbon footprint? Transferring more business systems into the cloud and improving data exchanges between them. Your partners should not operate in silos. They need the capabilities to send and receive upstream/downstream data to adjust their operations and report on targets. Bringing supply chains closer to home requires significant capital and

often results in temporary disruptions. A strong digital supply chain can minimise the impacts of geographic boundaries on your operations and consolidate your operations virtually, instead of physically.

BALANCING THE ENERGY COSTS OF YOUR TECHNOLOGY PORTFOLIO

After a rapid stage of digitisation, your data centres could be your largest source of energy consumption. Legacy, energy-inefficient hardware can tremendously affect the total cost of ownership of a data centre. Insisting on housing your data in a facility powered only by renewables is a great start. Consider hardware rationalisation projects to retire the outdated assets. Then, look into upgrading the cooling systems and using more energy-efficient storage systems.

Migration to the cloud (in particular to a multi-tenancy data centre) can counterbalance the increasing costs of maintaining most hardware on-premises. Cloud data centres were found to be nearly five times more energy-efficient than on-premises setups among APAC companies and can reduce energy usage for business applications by up to 79%[9]. Google Cloud, for example, recently launched carbon-free energy scores for different data storage regions, empowering businesses to choose lower-emission locations. In 2020, Google has 'matched' 100% of its global electricity use with purchases of renewable energy, using a combination of their own renewables projects and topping up with energy from renewable suppliers.

PREPARING FOR ELECTRIFICATION AND ALTERNATIVE FUELS

Governments around the world are committing to de-carbonisation and electrification and alternative fuels will play a key role in the transition for businesses and citizens. This transition is likely to involve the eventual replacement of combustion engines and non-electric sources of heating or cooling (including gas boilers and diesel generators).

For the time being, however, it's worth considering the usage of smart measuring technologies and analytics to help identify core areas of waste and suboptimal energy use. Aiming for electricity efficiency in your operations is laudable, however, many big businesses have seen energy as an opportunity for transformation. Starting in 2009, Walmart joined a group of US retailers who top the list of America's leading corporate solar installers producing 2.7 trillion kWh in 2020. The world's largest retailer has ambitious sustainability goals including a target of 100% renewable energy by 2035.

"Because of a massive reduction in cost for solar and for wind, the cheapest form of electricity generation in many parts of the world is now from those technologies." Dominic Emery, Group Chief of Staff, bp.

8 Gartner, 2020. 6 strategies for a more resilient supply chain

9 AWS Institute 2021. The carbon reduction opportunity of moving to the cloud

Perhaps 'micro-production' is not an option for you, however, given the large chunk of operational spending on powering facilities, switching your energy supplier to one using renewable sources is an easy step in the right direction. Requesting this from your energy supplier also helps to create the demand in the energy market to accelerate the shift of global investment from old (fossil fuel) energy sources to new green alternatives.

EMBEDDING E-COMMERCE

A significant portion of consumer spending across product and service categories is going online, as the pandemic prompted a rapid shift in consumer behaviour. Globally, the e-commerce market experienced a two-to-three-year acceleration in growth in a single year. Now it's on track to reach $7.3 trillion (£6,243 trillion) by 2024[10]. Likewise, the consumption of digital services (including entertainment, online media, online travel, transformation, food, and financial services) has grown exponentially in every region of the world.

Consumers are now confident with using digital payments and accustomed to the "instantism" of product/service delivery. Progressive players are developing an 'omnichannel' model using technology to manage multiple fulfilment scenarios for different types of customers and shopping scenarios all with variable sustainability metrics and impacts.

DIGITISING PAYMENTS AND AUTOMATING YOUR BACK OFFICE

Digital payments including credit and debit, and pre-payment cards managed on open networks and based on global acceptance standards are already helping cities to connect all forms of transportation – trains, buses, bikes, e-scooters and ride-sharing services, but also tolls, bridges, parking and EV charging points. In doing so, they are helping consumers to choose public transport, thereby reducing congestion and improving the lives of millions of city inhabitants.

The same technologies are being applied by businesses in the private sector to reduce friction for consumers enabling real-time reporting to improve and automate inventory management, procurement, business analytics, customer relationship management, and potentially help you and your customers track and limit CO_2 emissions.

10 Payments Journal 2021. FIS Shows the growth of digital wallet

WE RECOMMEND ASKING THE FOLLOWING TECHNOLOGY QUESTIONS:

1. DO THE CURRENT TECHNOLOGY SYSTEMS IN PLACE PROVIDE SUFFICIENT SUPPORT FOR YOUR SUPPLY CHAIN OPERATIONS, CURRENT ENERGY MANAGEMENT, AND FUTURE TRANSITION TO RENEWABLES?

2. HOW CAN YOU REPLACE LEGACY TECHNOLOGIES WITH MORE ENERGY-EFFICIENT ALTERNATIVES (TRANSPORTATION/COOLING/HEATING, ETC)?

3. CAN YOU EMBED "CIRCULAR DESIGN" INTO YOUR OPERATIONS TO REDUCE WASTAGE OF MATERIALS, POWER, PACKAGING, AND DELIVERY MILES?

4. HOW WILL FURTHER DIGITISATION OF YOUR SALES CHANNELS IMPACT YOUR CARBON FOOTPRINT?

5. CAN TRANSITION TO DIGITAL PAYMENTS AND INTEGRATED FINANCIAL SYSTEMS HELP MINIMISE REDUNDANCIES AND WASTE?

6. WHAT MEASURES DO YOU HAVE IN PLACE TO FURTHER SECURE YOUR NEW SYSTEMS FROM FLOOD/FRAUD/CYBER RISKS?

STEP THREE

MONITORING AND REPORTING TO REALISE A SUSTAINABLE VISION

What gets measured gets done. Governments, regulators, consumers, and investors are increasingly seeking insight into the social and environmental progress of the businesses around them. 90% of S&P 500 Index Companies[11] already publish sustainability reports to keep stakeholders and the public informed, up from 20% in 2011.

Twenty-five countries, including Australia, China, the EU, South Africa and the UK have made Environmental Social and Governance (ESG) disclosures and reporting mandatory for larger companies and financial institutions. Even if the legislature does not affect you (yet), investors and other business stakeholders may be proactively inquiring about your plans. However, reporting is no longer just a CSR activity, Measuring and monitoring progress against your plan for more sustainable operations will be essential in delivering your vision.

Measuring progress against your plan goes beyond check-box compliance or any regulatory demands. Check-box sustainability reporting can make you look good for the time being. Yet, you can only achieve bottom-line growth from your sustainability efforts, if you re-establish what best practice looks like and then monitor and report on progress against them. Realistic metrics are also necessary to understand how likely your daily actions and strategic plans are to ensure the future sustainability of your business .

"I think you see it from a number of investors, for example Blackrock, Statestreet, or the large pension funds. They are looking at the sustainability aspects [of businesses]. That is not just from an altruistic point of view, but from a business point of view. They know that the world is changing, they are making long-term investments, they want to have the information that will allow them to assess the impact of all these things on the long-term performance of the entity." Kevin Dancey, CEO of the IFAC.

In 2020 Exxon Mobil Corp was forced to write down $19.3-billion of US natural gas fields[12] as a result of underestimating the impact of changing market conditions (prices and demand) on their future viability. BP suggests a more proactive stance on decarbonisation. "We have an aim to reduce our oil and gas production by 40% in 10 years, and we will continue to invest in low carbon sources of energy [including wind , solar, biomass, hydrogen]." shared Dominic Emery, Group Chief of Staff, bp.

11 G&A Institute, 2020. Russell 1000 flash report

12 Bloomberg, 2021. Exxon defends dividend after first annual loss in decades

"WE KNOW INVESTORS ARE NOT GETTING THE INFORMATION THEY NEED RIGHT NOW. THIS IS WHAT THE LARGE INVESTORS ARE SAYING THEY NEED. THIS PUSH [FOR BETTER REPORTING] IS REALLY DEMAND-DRIVEN".

Kevin Dancey, CEO of the IFAC

On a company level, measuring and reporting on progress against the plan is a challenging effort. An effective CFO must think unemotionally about carbon impacts and climate risks, the same way they do for any other business risk that requires mitigation and management in the future. It doesn't really matter if people in the business are sceptical or not. All that matters is whether your stakeholders (from customers to investors) think that climate change presents risk to your balance sheet and future income streams. What's required from the finance team is a holistic view for the board on how carbon impact and climate risks affect the outlook for future business prospects.

"Our job is to deal with the world as it is. Not the world as you would like it to be, or my perspective. It really doesn't matter what you or I think, that's irrelevant. You deal with the facts." Kevin Dancey, CEO, IFAC.

The broader metrics need to be introduced to ensure fair reporting on progress against your transformation plans. Personalised metrics selection will depend entirely on your individual circumstances. Aspects of what you will report on are likely to fall within four categories: environmental, ethical, philanthropic, and economic.

To provide consumers, investors, employees and other stakeholders with a fair reflection on your vision and your progress to date, you'll need to consider which framework(s) might best support you. Unsurprisingly, there are a number of different sustainability frameworks, metrics and standards setters (nothing in the reporting space is ever simple). Options including the Global Reporting Initiative, the Carbon Disclosures Project, and the Sustainability Accounting Standards Board amongst others.

"People are grabbing all sorts of [reporting] standards [...] off the shelf at the moment, based on what makes them look good and how they can tick the box. And that world is going to change". Kevin Dancey, CEO, IFAC.

The International Integrated Reporting Council has tried to connect the dots between different standards, designing an Integrated Reporting framework that promotes a joined-up approach to corporate reporting that includes both financial and non-financial metrics.

More recently, the International Financial Reporting Standards (IFRS) has launched the International Sustainability Standards Board (ISSB). In 2015 the Financial Stability Board (FSB) announced the establishment of an industry-led Task Force on Climate-Related Financial Disclosures (TFCD), designed to measure physical risks, liability risks and transition risks around the transition to net-zero.

Paired with the International Integrated Reporting Framework, these standards are available to help you establish a comprehensive method for measuring and reporting on your performance against the set sustainability goals. Such reporting also provides investors and other stakeholders with a better informed, fair, and longer-term view of your prospects as an organisation.

WHAT IS TCFD REPORTING?

Financial markets need reliable climate-related financial and non-financial information in order to price climate-related risks and opportunities correctly.

In 2015, The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures so as to better inform investment, credit, and insurance underwriting decisions and enable stakeholders to understand and assess a company's future climate-related risks.

The Task Force on Climate-related Financial Disclosures (TCFD) has introduced a set of guidelines, helping organisations collect, assess, and disclose climate-related risks and opportunities as part of their CSR reporting.

Recommendations for climate-related reporting disclosures are structured around four thematic areas:

1. Governance. Promotes disclosure of stakeholders' consideration, implementation, and oversight of climate-related risks and opportunities. Encourages the board to pay closer attention to progress against the set climate targets.
2. Strategy. Stimulates the consideration of climate-related risks and opportunities at the managerial level. Helps bring the climate agenda into the organisation's businesses, strategy, and financial planning and ensure upstream and downstream reporting on climate issues.
3. Risk Management. Establishes a process for identifying, accessing, and managing climate-related risks. Facilitates timely action and stronger alignment between the corporate vision and execution.
4. Metrics and Targets. Promotes the establishment of unified metrics and targets for collecting material information for decision-making at the above levels.

WE RECOMMEND ASKING THE FOLLOWING QUESTIONS

1. **WHAT METRICS ARE AVAILABLE TO REPORT ON PROGRESS AGAINST THE PLAN?**
2. **HOW ARE YOU MEASURING AND REPORTING ON YOUR CORPORATE SOCIAL RESPONSIBILITY PROGRAMME?**
3. **WHICH SUSTAINABILITY AND REPORTING STANDARDS ARE BEST SUITED TO REPORT ON YOUR BUSINESS ACTIVITIES AND JOURNEY TO NET-ZERO?**
4. **HOW CAN YOU BEST USE THE TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD) GUIDELINES TO SHAPE YOUR SUSTAINABILITY REPORTING?**
5. **HOW ARE YOU KEEPING TRACK OF THE PLETHORA OF GOVERNMENT INCENTIVES?**
6. **WHAT ARE THE LATEST REGULATIONS AFFECTING YOUR SECTOR AROUND THE ENVIRONMENTAL, LABOUR AND SOCIAL SPHERES?**

MAKING THE MOST OF GOVERNMENT INCENTIVES

Transparency in disclosures is a challenging idea to get people on board with. Growing pressures from investors and the general public are a strong nudge. But your business isn't in this alone. Governments are also being measured on their ability to meet the ambitious net-zero targets. Respectively, they are introducing a range of incentives to capture the support of the private sector.

The UK issued super-tax deductions, valid until the end of March 2023, this year, allowing businesses to claim 130% capital allowances on energy-efficient plant and machinery investments[13]. Europe's 'Fit for 55' package, adopted by the member states this year, includes a host of incentives such as tax allowances for qualifying industries to balance the obligations and penalties. China also plans to promote the transition with a package of renewable energy subsidies and credits, totalling $13 billion for this year[14].

Ultimately, improved reporting can help position your business to benefit from emerging incentives and tax allowances, as well as prevent costly non-compliance with evolving regulations in the environmental, labour and social spheres.

13 HM Treasury, 2021. Budget 2021 super deduction factsheet

14 Bloomberg, 2020. China boosts renewable power subsidies 7.5% to $13 billion

HOW TECHNOLOGY CAN HELP IMPLEMENT BETTER REPORTING

From automating data input to exercising elaborate judgement, AI and data analytics solutions are capable of doing the "heavy lifting" when it comes to collecting, analysing and reporting your CSR metrics.

COLLECTING AND CLEANSING YOUR DATA

Siloed data is the biggest roadblock to effective reporting. Focus on consolidation first. Data lake and data warehousing technologies can help securely centralise business and customer data in the cloud and maintain it in an analytics-ready state. Implement a proper data cleansing process to ensure that relevant, unbiased, and properly formatted raw data entries are available for analysis.

USING DIGITAL AUDIT TO INFORM YOUR ESG REPORTING REQUIREMENTS

You may want to collect and compare data from your reporting and digitalised audit conducted as part of your sustainability targets baselining. See whether you have accumulated sufficient metrics to show progress against your sustainability targets. Then consider preparing metrics to report climate-related risks and opportunities (provided that you have sufficient data and appropriate reporting frameworks) and disclose the findings to corporate stakeholders, investors, and customers. Finally, take a broader look at your analytics capabilities. Perhaps, you can locate current gaps and, based on these, establish the next priorities in terms of data collection, verification, and analysis.

AUTOMATING YOUR REPORTING

It will be beneficial in the long-run to automate your ESG reporting by connecting self-service business intelligence tools to your cloud data repositories. Or consider implementing more advanced data science models to parse through larger volumes of data. Intelligent automation can facilitate monitoring and reporting on climate-related baselines you have developed and automate reporting on progress for both disclosures and strategic decision-making. Additionally, you can implement digital ESG audits to scale and streamline the assessment of different compliance activities and underway initiatives.

Automated compliance management solutions, both off-the-shelf and purpose-built, can empower your team to investigate new avenues for green growth. L'Oreal, for example, launched an internal Sustainable Product Optimisation Tool (SPOT) in 2017. SPOT enabled product teams to simulate different product design options (ingredients, packaging, sourcing) to assess its carbon imprint and locate avenues for improvement. By quantifying how different product elements fit into the company's sustainability targets, the brand can proactively increase the proportion of renewable, sustainable, and reusable elements in its product offerings.

MONITOR REGULATORY CHANGE

Organisations with mature data governance and analytics capabilities can also implement regulatory parsing solutions to map different business processes to sustainability targets and implement dynamic updates based upon regulatory changes. Natural language processing (NLP) algorithms can be trained to comb through large bodies of texts — regulatory publications, press

WE RECOMMEND ASKING THE FOLLOWING TECHNOLOGY QUESTIONS:

1. **HOW DO YOU PLAN TO DIGITISE YOUR INTERNAL AND EXTERNAL AUDIT AND STREAMLINE BUSINESS CONTROLS TO BENEFIT THE BUSINESS AND INFORM ESG REPORTING REQUIREMENTS?**

releases, social media — to extract key insights from them. Analytical data can be used to map regulatory developments at global and local levels. Using horizon scanning you can initiate timely change management to remain compliant.

TUNE IN ON STAKEHOLDER AND CUSTOMER FEEDBACK

Staying abreast of the consumer sentiment and stakeholder opinions, shared online and during private gatherings, is also essential for creating an improved value chain. NLP and AI-based algorithms can help enrich your strategic planning with first-hand feedback. 91% of leaders believe that how they respond to events that impact society reflects on their brand and overall customer perception of their business. Failure to act on and respond to the growing pangs of dissatisfaction with your actions can severely undermine your reputation and lead to legal action.

In 2020, Italian oil major Eni was fined €5 million (£4,32 million) after advertising its palm oil-based diesel as 'green' in a national marketing campaign.

All members of our society expect tangible action, rather than aspirational claims, both from our governments and businesses. Brands that will muster the transition to sustainability will undeniably benefit from wider consumer and governmental support. Whereas those stuck in the "check-box" mindset will continue missing the emerging pockets of growth and gradually lose the market positions to their greener peers.

2. WHAT DIGITAL TOOLS DO YOU NEED TO COLLECT, PRODUCE AND REPORT ON KEY ASPECTS OF YOUR SUSTAINABILITY STRATEGY AT THE PUSH OF A BUTTON (FOR CUSTOMERS, INVESTORS AND OTHERS)?

3. DO YOU HAVE TECHNICAL SYSTEMS IN PLACE FOR MONITORING CUSTOMER AND STAKEHOLDER FEEDBACK ACROSS ONLINE CHANNELS?

CONCLUSION

The "greening" of business has begun. Technology players such as Microsoft, Google and IBM are committed to becoming carbon negative and carbon neutral by 2030. Logistics players such as DHL are exploring alternative transportation modes to stop contributing to air pollution in cities and reduce the carbon footprint across the entire supply chain. Even automotive manufacturers such as Nissan, Tesla, Toyota, and Volvo are now rapidly transitioning from internal combustion engines to electric fleets.

Neutrality in your actions does not get you closer to profiting from carbon-neutral initiatives. In the long-term you will be out of business if your operations are severely tied in with producing, interacting with, or selling carbon. In fact, those who are 'slow off the starting blocks' risk losing market share to more sustainable players.

Policy-makers are also taking action. Under the new Biden administration, the US has rejoined the Paris Agreement and announced new ambitious targets to reduce greenhouse gas emissions by 50% by the end of the decade. China also doubled down on strengthening its 2030 climate targets and accelerating the adoption of clean energy sources, where the country is a world leader. The EU, in the meantime, plans to introduce a new Carbon Border Adjustment Mechanism

(CBAM) starting from January 2023 — a levy on high carbon imports from third countries into the EU.

There will be no winners in a climate crisis. Don't be left behind. This market transition is a perfect opportunity to start your journey towards a more sustainable business. Resetting your strategic objectives around a refreshed purpose provides a compass for everything you do. And a sustainable business will be a profitable business that will be around in the long-term.

Regardless of your size, HLB teams across the network can help you to draw-up your baseline, establish a more sustainable business model and monitor, report and deliver your vision. Within each step of the journey, we've highlighted some practical actions you can take to support new strategic objectives as well as boosting your bottom line. Our technology, audit, tax and advisory teams around the globe are on hand to assist you with your programme development and deliver plans to achieve your vision. We hope this report has helped to highlight the steps you can take to set a new sustainable trajectory for your business long-term. We look forward to working with you to ensure you arrive at your desired destination.

GET IN TOUCH

We are ready to help you reduce your carbon footprint and the environmental impact of your business.

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