

The sustainability transformation

“Transformation is sustained change, and it is achieved through practice” - BKS Iyengar

Introduction – Sustainability requires a transformation, not a strategy

Before the pandemic we began to see seeds of a sustainability revolution. The seeds for this were sown by initiatives such as the UN Sustainable Development Goals (SDGs)¹ and the Paris Agreement on Climate change in 2015². As the pandemic

unfolded, it seemed that the focus shifted to responding to the here and now and away from the future. As we continue to navigate the impact of the pandemic, it is now clear that what the world has been experiencing for the last 18 months has propelled the topic of sustainability to mainstream.

Businesses are now actively considering sustainability risks and opportunities in not just their risk management frameworks but in their operating models and strategy.

Set out below are some examples:



Risks

(examples):



- The interdependency of our global supply chains;
- The vulnerability of those in less developed societies;
- Human rights relating to remote working.



Opportunities

(examples):



- Reduction in unnecessary travel;
- Changes to infrastructure;
- Digitisation resulting in the reduction (but not eradication); of carbon emitting activities.

1. <https://sdgs.un.org/goals>






2. <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

In consideration of the risks and opportunities the conversation quickly turns to strategy and business transformation.

This is the decade of action³. Our descendants, future society and planet will depend on our legacy during this decade. This is something to be fearful of, but also

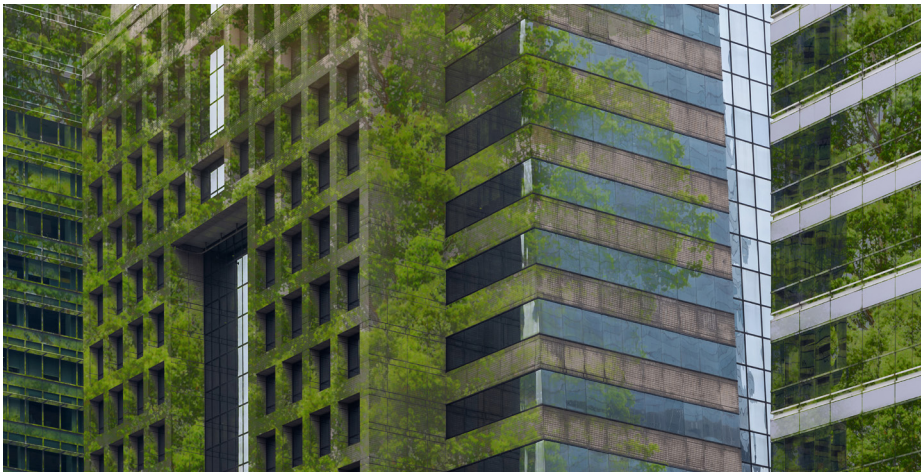
an opportunity to be brave, to make a difference for our future generations: to make an impact that matters.

Sustainability risk applies to all organisations and it manifests in many forms, such as:

Sample risk types	Illustrative sustainability risk
 Operational and IT risk	Power outage due to acute and/or chronic weather events
 Financial risk	Failure to repay loans due to changes in customer behaviour resulting in decreased demand for your products or services
 Regulatory risk	Non-compliance with relevant sustainability disclosure regulation
 Strategic risk	Loss of market share due to competitors perceived sustainability credentials
 Conduct and reputational risk	Perceived 'greenwashing' of products or unethical behaviour such as human rights violations

Therefore, it is imperative that sustainability risks are considered and embedded within your existing risk frameworks. However, fundamentally, sustainability is about looking forward. It's about looking to the future and how the business will operate in years to come, and a plan to get there.

There is an overload of information in the market on this topic, there is a tsunami of regulation, there is a cocktail of reporting standards and of course, there is the climate science.



3. [Decade of Action – United Nations Sustainable Development](#)

To simplify the matter, we have set out below, three areas we believe an organisation needs to focus on to start the transformational journey - *People, Operations and Market*.

People

All transformations begin with the heartbeat of an organisation, its people. A change in behaviour is needed to succeed in transforming the business, in terms of how it operates, how it engages with and attracts customers and how it transcends to life outside work.

We see this impacting HR policies and procedures e.g. the travel policy, the gifts and entertainment policy, the remote working policy. But it runs much deeper than policies and procedures to ensure sustainability is at the core of an organisation's purpose and culture. More and more organisations are taking accountability for creating a greater level of awareness within their workforce on the topic of sustainability and empowering their people to become more sustainable in work, at home and in their communities.

As organisations travel further along the journey to sustainability, the impact that this has on the workforce will likely become a source of competitive advantage for an organisation to retain, attract, and engage top talent⁴.

Operations

A sustainable operating model is not a new concept. Cost management, increased digitalisation, transition to cloud have been on the agendas and in the strategies of corporates worldwide for many years. Couple those strategic plays with a plan for reduced carbon emissions and increased use of renewable energy sources and you are getting close to a sustainable transformation of the business. Include employment practices, diversity and inclusion and corporate social responsibility and you are one step closer again. Layer in some sound governance and you are nearly there. Apply those same standards to your supply chain and you are truly beginning to make an impact. To be most effective a organisation must understand what is material to them from an environmental, social and governance perspective and ensure necessary targets are in place.

As noted above, the risk management landscape is changing. According to the WEF report in 2009 the top risks by likelihood and impact reflected an asset management crisis. In 2021 they relate to ecological and social issues⁵. Has your risk framework adapted to reflect these?

Similar to people, there is a significant opportunity to be more sustainable from a financial perspective. In addition, multiple studies have demonstrated that those organisations with high ESG scores avail of a better cost of capital and this trend is likely to increase⁶. We're seeing this in our day to day lives for instance, one can avail of a better interest rate for their mortgage should the property be classified a certain BER energy rating.

Social

Social issues around workplace practices & human capital

Environmental

Environmental issues such as climate change & pollution

Governance

Governance issues such as executive pay, accounting & ethics



4. [Impact of corporate social responsibility on talent | Deloitte Insights](#)

5. [The Global Risks Report 2021 | World Economic Forum \(weforum.org\)](#)

Market

A study by CDP has shown that the finance sector's funded emissions are over 700 times greater than its own operations⁷. This demonstrates that a organisation, or a sector, in its own right, can be comparatively low impact on the environment, but its products and services could be facilitating a much great impact. This is the fundamental principle of the sustainable finance movement. Investors are encouraged to direct investment to the ESG favourable investments, and financial product issuers are encouraged to develop greener products. Products and services that make a positive impact on the sustainability of the customers who buy them are growing in popularity at significant pace.

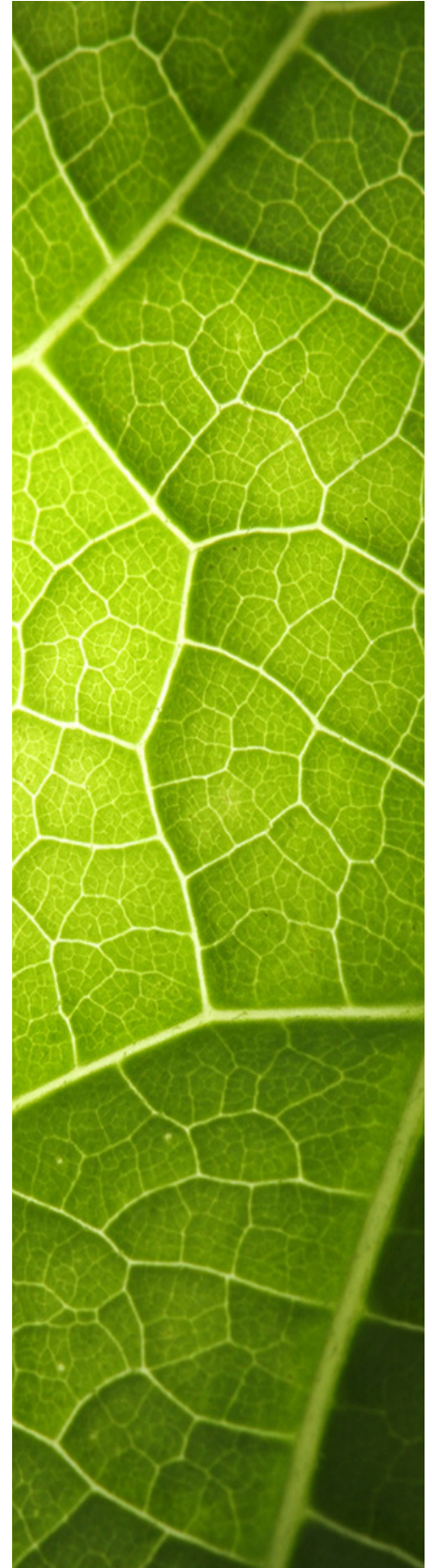
Changing consumer demand, particularly in the younger generation and so called generation Z have shown that companies must demonstrate their commitment to a broader set of societal challenges, such as sustainability, climate change and hunger⁸. This can be viewed as an opportunity for an organisation.

There is also an opportunity to be more innovative, particularly if your organisation operates in an carbon intensive industry. For instance, it has been proven that feeding cow's seaweed can reduce methane emissions by up to 80%⁹.

Conclusion - perfect is the enemy of good

"Companies not interested in sustainable development issues will not survive long"
Malcolm Brinded, Executive Board Member of Royal Dutch Shell plc

There are challenges associated with sustainability such as an inconsistency in the data used to measure ESG, and a wave of regulatory change and reporting standards that is difficult to implement. It is clear however, that there is a huge opportunity for organisations who embrace sustainability in its truest form, an ambition to build a lasting business, a business that outlives its current owners and shareholders, a business that does good, a business that develops economies and communities, a business that is not only protected from climate change but that does its part in protecting other businesses and future generations from climate change. If you have not started on this journey, it may seem daunting but it is important to start and taking lessons from our Covid resilient leadership series¹⁰ – perfect is the enemy of good.



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6. [Transitioning to sustainable finance | Deloitte Insights](#)
 7. [Finance sector's funded emissions over 700 times greater than its own - CDP](#)
 8. [Welcome-to-gen-z.pdf \(deloitte.com\)](#)
 9. [A Seaweed Diet Could Reduce Cattle's CO2 Emissions \(forbes.com\)](#)
 10. [Resilient leadership responding to COVID-19 | Deloitte Insights](#)

Five practical steps

Below are five practical steps to start on this journey.



Accountability – tone at the top is critical. What we have observed in the market is that those organisations that are embracing sustainability at C-suite level are advancing on their competitors. To enhance this model, you may also consider the appointment of a Chief Sustainability Officer, to act as a sense maker in chief¹¹.



Quick wins – What can be achieved in the next few weeks or even days? For instance switching your energy supply to renewable energy. Addressing your organisations travel policy. Or simply joining or signing up to your industries sustainability initiative, for instance in the banking sector there is the principles for responsible banking¹². For communities they can join the Sustainable Energy Network¹³. Also, what are the positive behaviours during Covid your organisation should consider retaining? Do you need all of your buildings, can you continue to travel less and video conference more or really simply, do you need the same amount of printers?



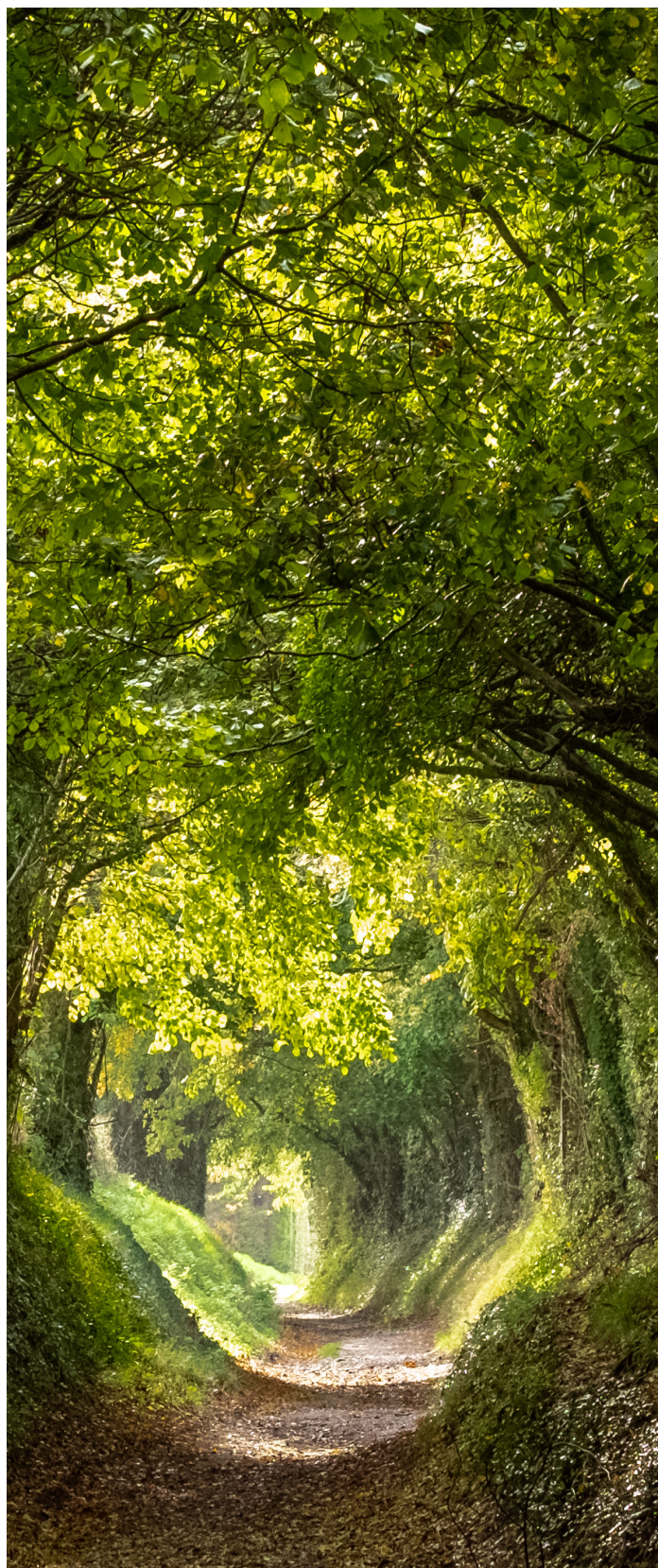
Understand your risks – perform an assessment of what is material for your organisation from an E, S and G perspective. There are a number of frameworks, standards and tools out there – choose one and adapt thereafter. The important thing is to start.



Set goals and report – once you understand your risks, set targets and report. Again leverage the industry standard. Deloitte in conjunction with the World Economic Forum and other Big Four have developed Common Metrics and Consistent Reporting of Sustainable Value Creation¹⁴.



Think about your transformation plan – this may involve changes to your approach to people, business operations, and your engagement in the market.



11. [The Future of the Chief Sustainability Officer | Deloitte](#)
12. [Principles for Responsible Banking – United Nations Environment – Finance Initiative \(unepfi.org\)](#)
13. [Why Join The Sustainable Energy Community Network | SEAI](#)
14. [Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation | World Economic Forum \(weforum.org\)](#)



How can Deloitte help

Strategy and governance

Our specialist team can work with you to review and design sustainability strategies, risk architecture and governance structures to help your organisation achieve its sustainability goals. Our team can work with you to implement and embed sustainability across your business.

Risk and regulation

Our specialist can advise you on the changing policy and regulatory landscape, identifying the key laws and regulations that apply to your business and undertake a gap analysis to understand your level of compliance and any necessary actions that need to be taken.

Product and innovation

The increased focus on sustainability is causing all businesses to think differently about their products. For example, seeking ways they can innovate to either change existing products or production to lower the impact on the environment, or to introduce new 'greener' products, the latter also being influenced by consumer and investor demand. We can assist with the research to understand the feasibility of your innovative concept, how it will fair in the market and the specific regulatory criteria to consider.

Reporting and assurance

We assist organisations in applying the concept of integrated thinking to achieve strategic objectives and communicate corporate performance through integrated reporting. We assist our clients in increasing the credibility and reliability of sustainability disclosures by providing both internal and external assurance (using a wide range of internationally-recognised frameworks and standards such as GRI, TCFD, and SASB) on sustainability reports, greenhouse gas (GHG) statements, and other forms of non-financial information.

Climate change and decarbonisation

We help our clients reframe and rethink their future as they navigate their way through the climate change transition. We take our clients beyond risk identification and mitigation to decarbonisation strategies and abatement projects that deliver competitive advantage. Our team can also provide training on climate changes and related at all levels of the business, including Board and executive level, to increase awareness and understanding of the environmental issues and how it impacts your business and sector.

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