Corporate Sustainability Goal Setting and Measurement

GreenBiz group | BLACK & VEATCH

Executive Summary

Companies across all sectors are placing increased focus on sustainability as a tenet of their business practices. This shift illustrates a new way of thinking, where organizations take into consideration how they operate in the environmental, social and economic environment, and how these areas can be leveraged to create long-term value.

GreenBiz Group, in collaboration with Black & Veatch, conducted research to gain a greater understanding of corporate sustainability goals and some of the strategies for achieving those commitments. This "Corporate Sustainability Goal Setting and Measurement" report presents the findings of an online survey conducted by GreenBiz Group, supplemented with interviews conducted with sustainability leadership at Fortune 500 companies.

KEY TAKEAWAYS:

More than 80 percent of companies surveyed with revenues greater than $250 million have set greenhouse gas (GHG) reduction goals, yet 25 percent have set goals at a such a level that they are unsure how they'll meet them representing the need for emerging technologies to close the gap.

Approximately two thirds –67 percent – of the survey's largest companies, those with revenue greater than $10 billion, have set Scope 3 emissions targets reflecting the growing trend to influence emissions of other companies and activities in their value chains.

Corporate management and investors are the top stakeholders driving sustainability commitments, far outweighing other influencers such as customers or regulators.

Energy efficiency and renewable energy generation are important in the short term and seen as a necessity for the largest companies to meet their sustainability goals.

Electric vehicles (EVs) are being piloted by more than half of companies with revenues greater than $1 billion as a strategic component toward achieving sustainability goals.

More than three-quarters of companies with revenues greater than $10 billion are using analytics to reduce energy and water usage, as are more than half of all other companies.

Companies are using a combination of capital expenditures (CapEx and operating expenses (OpEx) to fund sustainability projects while green and sustainability bonds are gaining traction with the finance department.

Introduction

In 2015, the nonprofit consortium Climate Action Tracker estimated real-world action would result in 3.6 degrees Celsius (C) of global warming by 2100. The organization's latest assessment found that by 2020, the world was on a path to achieving slightly less – 2.9 degrees C of warming, illustrating a drop of 0.7 degrees C over the previous estimate. While hopeful, this is still far from meeting the Paris Agreement's long-term goal of limiting warming to 1.5 degrees C above pre-industrial levels.

The past year has seen a marked rise in the number of countries and companies making "net-zero by 2050" climate commitments. The 2020 election of President Joe Biden led to a U.S. commitment to become net-zero, and corporate commitments such as Amazon's Climate Pledge and Walmart's Project Gigaton are focused on encouraging more companies to do their part to drastically reduce or eliminate GHG emissions.

GreenBiz Group, in collaboration with Black & Veatch, produced this "Corporate Sustainability Goal Setting and Measurement" report based on extensive research into corporate sustainability goals and the strategies being developed and employed to achieve them. This report presents the findings of the online survey, with additional insight from interviews conducted with sustainability leadership at several Fortune 500 companies. (See "About the Research" for more about the methodology.)

We would like to thank the following people who agreed to be interviewed for this report:

Elizabeth Girardi Schoen
Global Environmental Sustainability Leader, Pfizer

Ying Yu
Senior Vice President, Environmental, Social and Corporate Governance (ESG) & Sustainability, Prologis

Cynthia Curtis
Senior Vice President of Sustainability, Jones Lang Lasalle

Aaron Robinson
Senior Manager, Environmental Strategy and Sustainability, United Airlines

Michelle Fitzpatrick
Global Sustainability Leader, The Chemours Company

Gretchen Govoni
Global Head of Environmental Sustainability, Takeda Pharmaceuticals

Kevin Bartlett
Global Head of Environmental Sustainability and Risk, Takeda Pharmaceuticals

Kim Marotta
Global Senior Director of Sustainability and Enterprise Risk Management, Molson Coors

Ajay Kasarabada
Distributed Generation Services Projects Director, Global Distributed Energy, Power, Black & Veatch

Tyler Johnston
Global Head of Strategic Partnerships, Black & Veatch

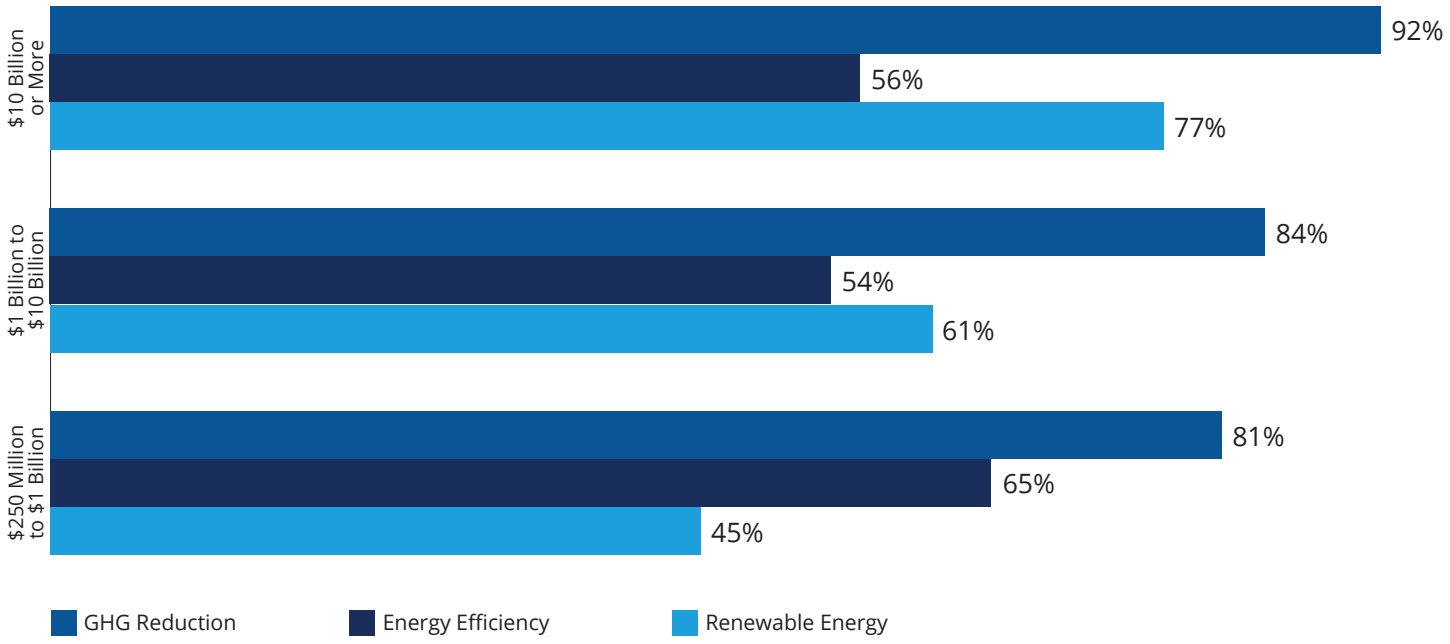
The Ambition of Setting Goals

More than 9,600 global companies currently disclose their environmental goals and performance in accordance with the guidelines established by the nonprofit CDP. We asked our survey participants to identify their organization's current sustainability goals, with 73 percent identifying GHG reduction as a key goal. For companies with revenues greater than $1 billion, this response increased to 89 percent.

Figure 1 highlights that most of the largest companies responding to our survey have GHG reduction goals, while more than three-quarters have renewable energy goals. For those companies with annual revenues between $250 million and $1 billion, more than 80 percent have GHG reduction goals, although significantly fewer of these smaller companies have renewable energy goals.

Digging deeper, we evaluated the extent of each organization's carbon reduction goals. Overall, 85 percent include Scope 1 (direct emissions from a company's facilities, plants and vehicles), while 74 percent include Scope 2 (indirect emissions from purchased energy). Only 52 percent of all respondents have set Scope 3 goals, which account for indirect emissions from upstream and downstream activities related to goods and services consumed or produced.

Figure 1: Public or Private Sustainability Goals Associated with GHG Reduction and Energy



The biggest difference between the largest companies – those with revenues greater than $10 billion – and all others surveyed is that 88 percent of the largest companies report Scope 2 emissions, and 67 percent report Scope 3. This is not particularly surprising, given that more than 1,000 companies worldwide are setting emissions reduction targets through the Science Based Targets initiative, which was established to drive ambitious climate action in the private sector and requires companies to set Scope 1, 2 and 3 goals. This implies large companies will continue to have a growing influence on the emissions activities and actions of other smaller companies in their value chains.

Throughout our survey and interviews with sustainability leaders, we sought to understand how ambitious those GHG reduction and associated energy goals were. In terms of setting aggressive goals, there was very little difference when it came to how much revenue an organization generated; this is encouraging as often larger organizations are better resourced to address regulatory, technology or societal trends that may impact their business, including cybersecurity challenges or the rise of data analytics.

Figure 2: Corporate Focus on Carbon Reduction Goals (All Respondents)

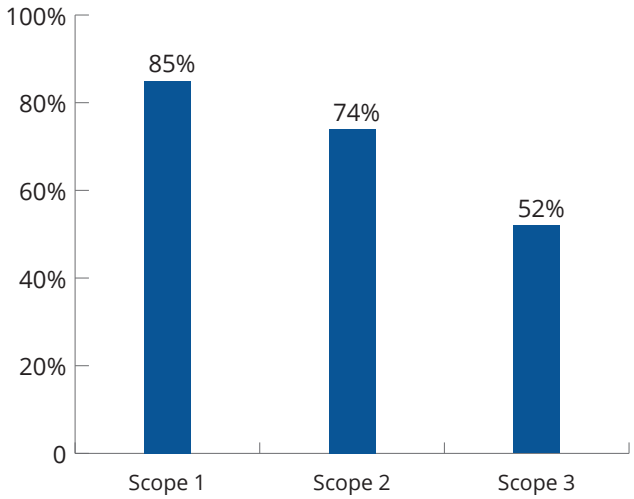
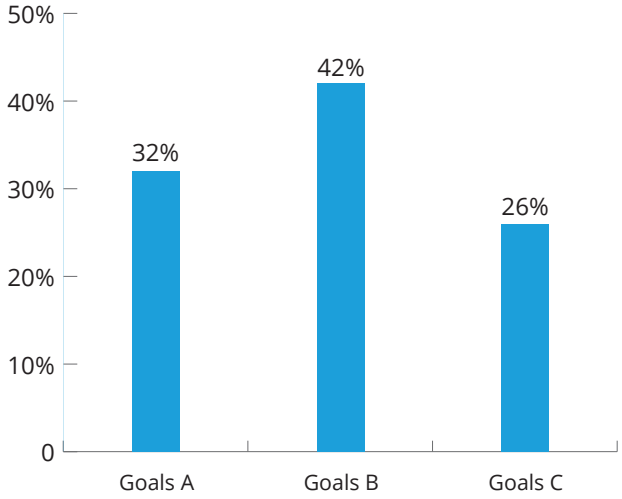


Figure 3: Level of Ambition In Setting Goals (All Respondents)



[A] We Set Conservative Goals with Full Knowledge of How We Will Achieve Them

[B] We Set Somewhat Aggressive Goals and Believe Technology Advances and Cost Reductions Will Help Us Meet Them Within Our Time Frame

[C] We Set Aggressive Goals and Do Not Yet Know Exactly How We Will Meet Them

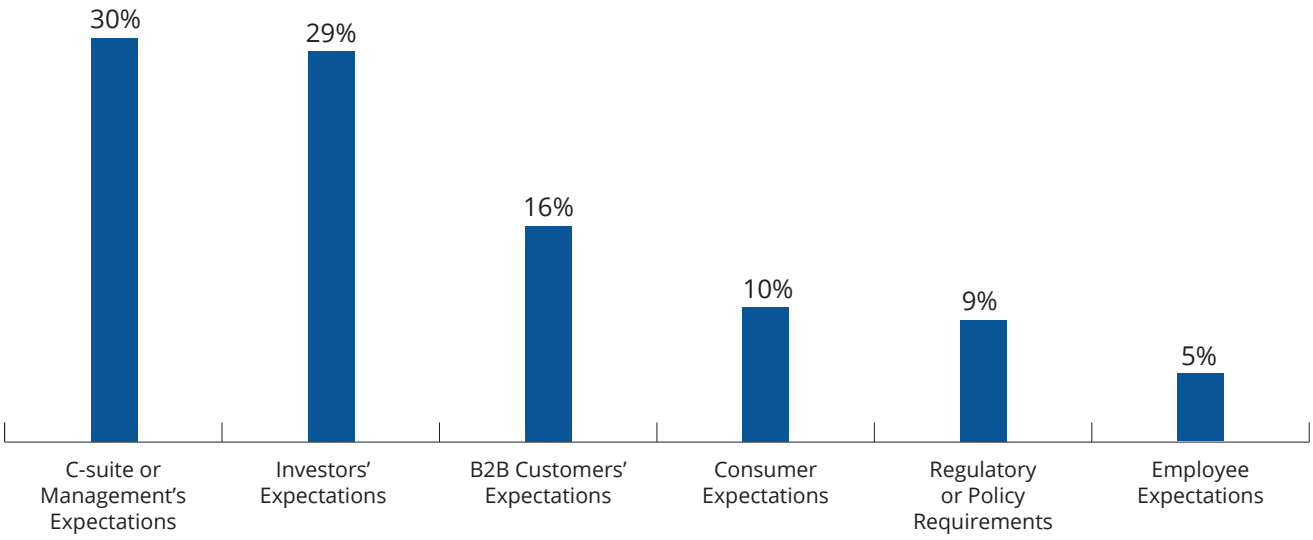
When looking at company size, the biggest differences between larger and smaller companies came down to who set somewhat aggressive goals and believe technology advances and cost reductions will help the company meet their goals within a specified timeframe. Fifty-one percent of companies with revenues greater than $250 million set somewhat aggressive goals, while only 31 percent of companies smaller than that set such goals. Forty-one percent of those smaller companies set conservative goals with full knowledge of how they will achieve them.

All of the sustainability executives we interviewed identified at least one goal that was considered to be very aggressive and that they did not yet know how to meet. Many of the aggressive goals are associated with a company's science-based target and the uncertainty at this time as to how they will achieve it.

On the path to defining more aggressive goals, Chemours' Michelle Fitzpatrick used a third-party consultant to get anonymized feedback from a cross-section of non-governmental organizations (NGOs) to understand how the external world would perceive her company's goals. The feedback was invaluable and resulted in several upgrades to the structure of the company's final goals.

To understand what is driving the establishment of these goals and how aggressive the commitments are, we asked which stakeholder was viewed as the primary driver. Responses to the survey were limited to the single most influential stakeholder, with 31 percent of respondents from companies with revenues greater than $1 billion identifying C-suite or management expectations as driving the goals. For companies with revenues below $1 billion, 38 percent cited senior management.

Figure 4: Primary Relationship Driving Sustainability Goals (Companies with Revenues Greater Than $1 Billion)



The most significant differences were associated with investor and consumer expectations. Twenty-nine percent of the larger companies identified investor expectations as the primary relationship driving the establishment of goals, whereas only 11 percent of companies with revenues below $1 billion pointed to investors. On the other hand, 19 percent of these smaller companies identified consumer expectations as a key driver compared to only 10 percent of the larger companies that identified this as the primary driver.

Business-to-business (B2B) customer expectations ranked low for many of our survey respondents, but for Prologis – the world's largest logistics real estate company – the driving force is its customers. According to Ying Yu, Prologis' senior vice president of environmental, social and corporate governance (ESG) and sustainability, ESG performance is key to the company's competitiveness. United Airlines' Aaron Robinson concurs that the airline's focus on sustainability also is customer-led.

For Cynthia Curtis, Jones Lang Lasalle's senior vice president of sustainability, the primary stakeholder driving ESG performance is investors, but she notes that increasingly it is also the global commercial real estate services company's B2B clients.

Other sustainability leaders we talked with were hard-pressed to isolate a single relationship driving the establishment of their organization's sustainability goals. Molson Coors' Kim Marotta shared that a decade ago, the company's initiatives may have been driven by management and one or two key stakeholders, but the number of stakeholders since has grown exponentially.

Implementing a comprehensive sustainability strategy requires a roadmap to get to a company's goals. Gretchen Govoni and Kevin Bartlett from the global biopharmaceutical company Takeda, which achieved carbon neutrality in 2020, are working toward a goal of carbon-zero by 2040 in their own operations. While they may not have all the answers as to how to get there, they are working with their local EHS and engineering teams at more than 30 manufacturing sites and research and development facilities globally toward a 40% reduction in GHG emissions by 2025 while also working strategically on the key technologies and projects to meet the 100% GHG reduction 2040 goal.

When it comes to master planning, Black & Veatch's Ajay Kasarabada notes that it all starts with a company first identifying where it is today and where it wants to be. This assessment identifies the gap, allowing a set of scenarios and "crawl, walk or run" strategies to be developed. For Black & Veatch, this often means helping companies understand what technologies can help fill these gaps and analyzing the business case for each of the proposed options. Spawning out of the master plan are projects that may be implemented over a five- or 10-year period to meet the desired goals or self-imposed mandates.

A good example of this approach is Takeda's planning for a new Manufacturing Support Building in Singapore. The project could not move forward until plans were in place to make it carbon-neutral. As Govoni shared, if there's a project that is going to have a negative impact on Takeda's achieving its sustainability goals, it will have very little chance of being approved.

From Aspiration to Achievement

Once an organization's goals are established, it is time to determine the pathway to success. We asked our survey participants to identify the technologies and purchasing strategies their organization is considering over the next three years.

The primary focus for companies large and small is on implementing energy- and resource-efficiency measures (77 and 72 percent, respectively). From there, their actual strategies to reduce emissions vary greatly. Roughly 70 percent of companies with revenues greater than $1 billion seek to achieve their GHG emissions goals through onsite and offsite renewable energy. Smaller firms are slower to adopt renewables (49 percent and 44 percent, respectively). This ties in Scope 1 (reducing direct emissions) and Scope 2 (minimizing carbon-based purchased power) efforts.

Large and small companies are slightly more aligned when it comes to carbon offsets (used by 54 percent of large companies and 46 percent of smaller companies). This related to Scope 3 emissions efforts, as fleet electrification offers promise given the projected fleet electrification rate.

The adoption of EVs by large and small companies are also at almost identical rates. One area where there is a disparity is when it comes to renewable energy certificates (RECs) and other energy attribute certificates. These are used by 52 percent of companies with revenues greater than $1 billion but only 28 percent of smaller organizations.

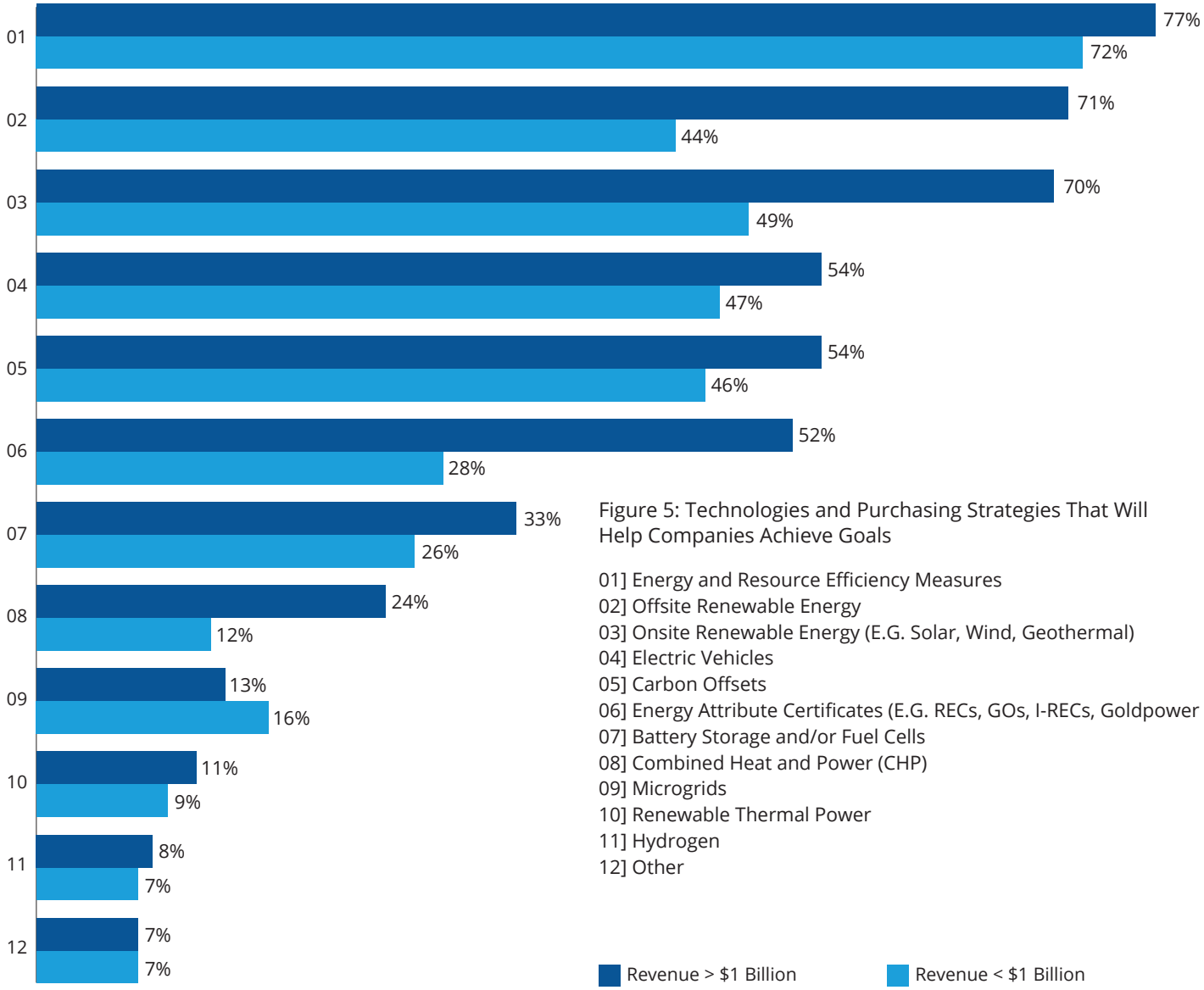
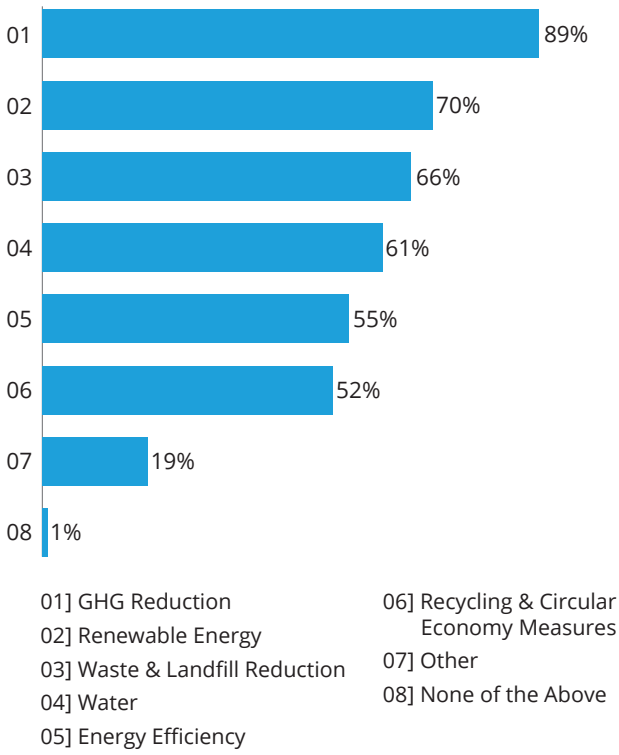


Figure 5: Technologies and Purchasing Strategies That Will Help Companies Achieve Goals

01] Energy and Resource Efficiency Measures
02] Offsite Renewable Energy
03] Onsite Renewable Energy (E.G. Solar, Wind, Geothermal)
04] Electric Vehicles
05] Carbon Offsets
06] Energy Attribute Certificates (E.G. RECs, GOs, I-RECs, Goldpower
07] Battery Storage and/or Fuel Cells
08] Combined Heat and Power (CHP)
09] Microgrids
10] Renewable Thermal Power
11] Hydrogen
12] Other

Figure 6: Which of the Following Public or Private Sustainability Goals Does Your Organization Currently Have? (Select All That Apply)



Although survey data shows that energy is the primary focus for companies going forward, as illustrated by the emphasis on GHG reduction and renewable energy, water also ranks in respondents' Top Five sustainability goals. This is particularly true for water-intensive sectors like manufacturing; according to the U.S. Census Bureau, the U.S. manufacturing industry requires 18 billion gallons per day of water for use in production, and accounts for nearly one quarter of freshwater withdrawals. Sixty-one percent of respondents named water a top goal.

Similar to other efforts around energy, larger companies are placing greater emphasis on water as a sustainability goal, and this focus slides as company size decreases. Companies with revenues of $10 billion or more rank water third behind GHG reduction and energy efficiency, coming in at 65 percent. For companies with less than $100 million in revenue, the emphasis on water slips down to a meager 32 percent.

All of these strategies require funding, and we sought to understand how companies are funding energy and sustainability projects.

For companies with revenues greater than $250 million, the typical funding is a combination of capital expenditures and operational expenditures — CapEx and OpEx. For companies with revenues greater than $1 billion, energy projects often are funded through power purchase agreements (PPAs). Fifty-eight percent of companies with revenues greater than $10 billion use PPAs, but this drops to 36 percent for companies with revenues between $1 billion and $10 billion.

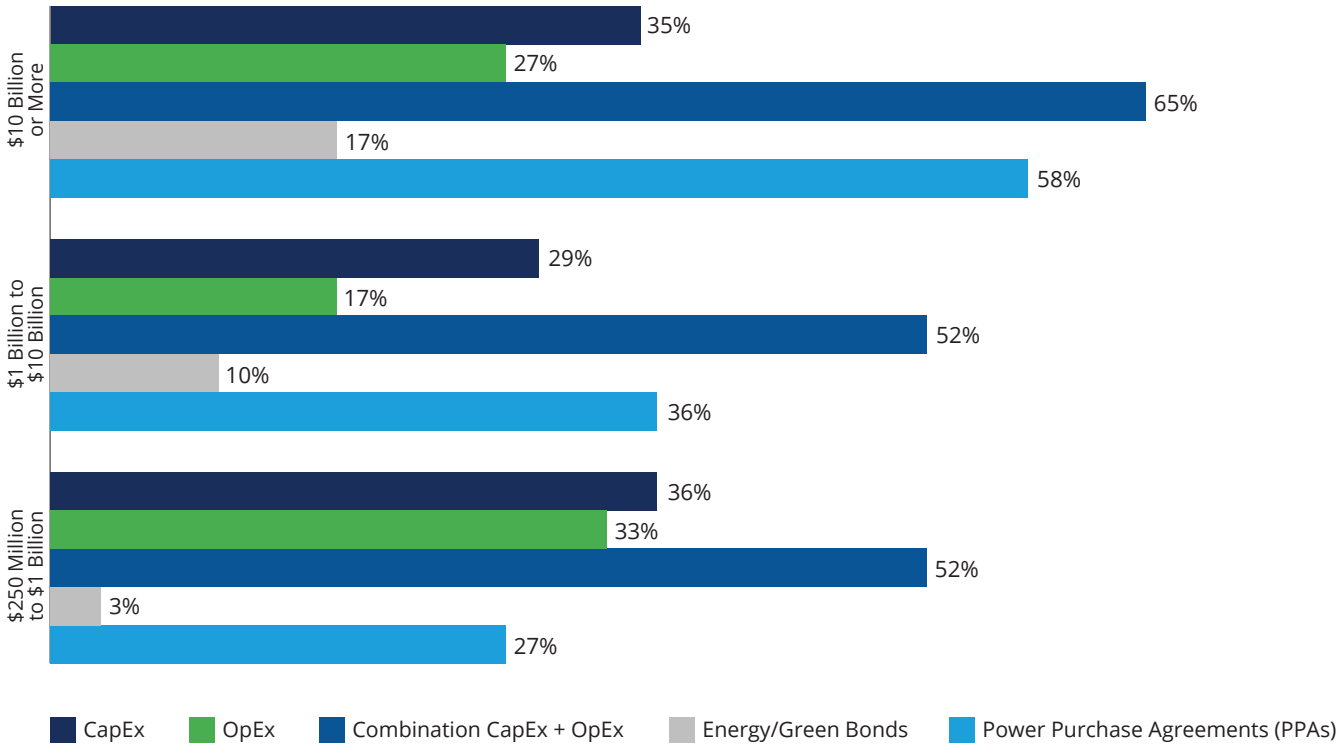
We asked our survey panel about the minimum payback periods or rates of return they expect for sustainability initiatives versus renewable energy investments. While different returns on investment (ROIs) were noted by panelists, there was little difference between the expectations for sustainability initiatives and renewable energy investments.

Many of the sustainability leaders we talked with also saw little difference for the ROI requirements of sustainability projects versus other projects requiring capital. One leader noted that once a sustainability project met the required payback and was approved, management often identified these projects as strategic. In that way, if capital is constrained, strategic projects remain a priority.

Another approach shared by Molson Coors' Marotta is to manage CapEx projects as a portfolio. This allows the company to fund projects that may fall slightly below the overall ROI hurdle by balancing them with projects that have a faster rate of return. Taking this portfolio approach can enable the company to meet both its financial and sustainability goals.

Black & Veatch's Tyler Johnston has seen a general theme emerge driven by COVID-19, where companies are shifting focus from CapEx to OpEx wherever possible. Putting that in human terms, if an individual is worried about losing their job, they would probably stop making large purchases and try to reduce their monthly expenditures to conserve cash. This is how a number of companies sought to weather the pandemic, a strategy that will most likely offer assistance when it comes time to fund sustainability projects.

Figure 7: Energy and Sustainability Project Funding Strategies



A burgeoning strategy for funding energy and sustainability projects is the growth of sustainability or green bonds. According to figures from the Environmental Finance Bond Database, total green, social and sustainability-linked bond issuances surpassed $600 billion in 2020, nearly double the $326 billion issued in 2019. More than 50 bonds raising $2 billion or more were issued in 2020 – up from just 15 in 2019 – and more growth is expected in 2021. This will certainly be a strategy leveraged by more organizations as they seek to deliver on sustainability and climate commitments.

Pharmaceutical giant Pfizer was the first in its industry to float a $1.25-billion, 10-year sustainability bond. Proceeds from the bond will help manage the company's environmental impact, support increased patient access to Pfizer's medicines and vaccines – especially among underserved populations – and strengthen healthcare systems. Based on research conducted by GreenBiz, green and sustainability bonds are highly sought, with recent offerings oversubscribed by a factor of five or 10.

A further area to watch, according to Johnston, would be the off-balance financing of energy-as-a-service projects that could deliver increased reliability, sustainability and cost savings for energy intensive facilities and industries.

With the emergence of various funding strategies and mechanisms, we sought to understand where sustainability leaders are getting their information. The top three sources about funding mechanisms for sustainability initiatives are the inherited knowledge of internal staff, outside consultants and industry publications.

For companies with revenues greater than $1 billion, staff knowledge and consultants were the two best sources (76 percent and 72 percent, respectively) while industry publications were noted by 59 percent. It's a different story for companies with lower revenues, as staff knowledge and industry publications were tied at 57 percent while consultants were identified by 47 percent of those respondents.

Measuring What You're Managing

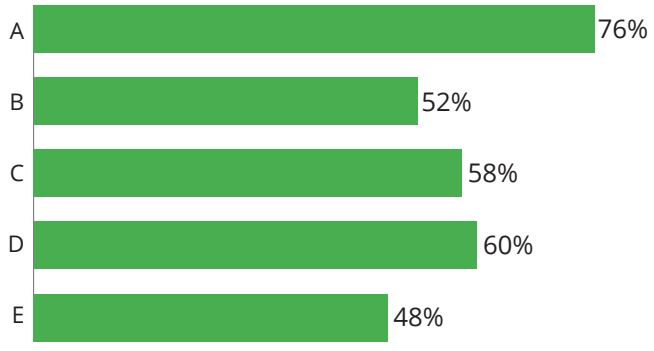
The key to any successful sustainability program is demonstrating its effectiveness by reporting against key metrics and maintaining a focus on continuous improvement. Thus, one way that many of our survey respondents are managing environmental performance is through the use of data analytics.

A little more than three-fourths of companies with revenues greater than $10 billion are using analytics to reduce energy and water usage while a little over half of all other companies are using data analytics. Forty-two percent of all companies strongly agreed with the statement that their organization is committed to leveraging data analytics and digital transformation to manage their energy and sustainability programs, and one-third strongly agreed that their organization had a dedicated person or team responsible for their analytic efforts.

When asked how well their organization is leveraging data analytics to manage energy and sustainability programs, 62 percent of companies with revenues greater than $1 billion are either "slightly better than peers" or "ahead of the curve," while 70 percent of smaller firms were doing a good job with analytics.

At both ends of the revenue spectrum, 19 percent of companies with revenues greater than $10 billion and 27 percent of companies with revenues less than $100 million identified as "ahead of the curve."

Figure 8: Organizations Using Analytics to Reduce Energy and Water Usage



[A] $10 Billion or More
[B] $1 Billion to $10 Billion
[C] $250 Million to $1 Billion
[D] $100 Million to $250 Million
[E] Less than $100 Million

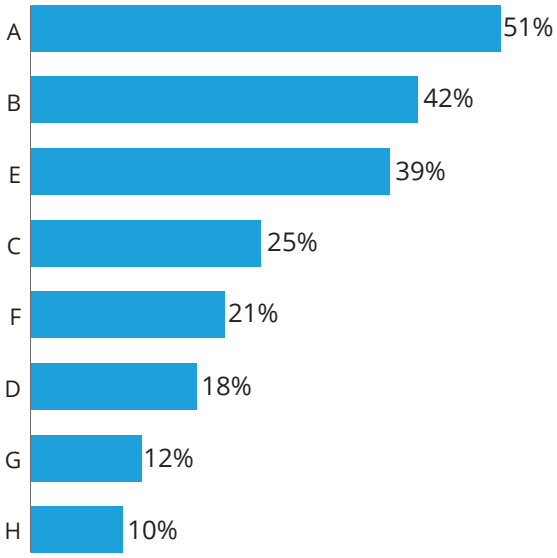
Driving Toward the Goal

As illustrated in Figure 8, there are several ways that companies are working toward achieving sustainability goals. One gaining traction is the electrification of a vehicle fleet. Regardless of the size of company, half of those surveyed have fleet electrification as a part of their overall sustainability strategy.

Slightly more than half of companies with revenues greater than $1 billion have established an electric vehicle pilot program, while 42 percent are analyzing operational considerations such as drive cycles, routes and how much of the fleet should be electrified. Only 35 percent of companies with revenues less than $1 billion are running a pilot program, but that doesn't necessarily translate to a lack of interest: 60 percent of these smaller companies are reviewing technology options such as types of vehicles and chargers, and 40 percent are analyzing operational considerations.

JLL's Curtis notes that in Europe, it is customary at a certain management level to get the use of a car or an allowance for a car and the company negotiates with vendors to determine which vehicles are available under that plan. The company currently is identifying electric and hybrid vehicles that will be included in its plan, with the eventual goal that only zero-emissions vehicles will be available.

Figure 9: Activities on the Path to Fleet Electrification (Revenues >$1 Billion)



[A] Piloting Programs
[B] Operational Considerations (Drive Cycles, Routes, How Many Vehicles to Electrify)
[C] Reviewing Technology Options (Types of Vehicles and Chargers)
[D] Site Planning (Existing or New)
[E] Coordinating with Utilities and/or Designing for Infrastructure Upgrades
[F] Understanding Daily Power Requirements and Power Delivery
[G] Applying For Permits and Seeking External Approvals
[H] Not Considering or Planning for Fleet Electrification

The Future of Environmental Goal Setting + Measurement

A large number of stakeholders, from boards and C-suites to employees and customers, are looking toward business to do its part in reducing its environmental impact. To achieve the goals of the Paris agreement, companies now need to deliver on their sustainability commitments.

Given that many have made aggressive commitments without a perfectly clear path, success will require a broad-based strategy or road-mapping that includes investments in energy efficiency, renewable energy and other new technologies. Master planning will be a critical component of any organization's sustainability strategy, no matter their revenue or size.

Depending on the industry, many of these investments will be sunk into assets that will be in use for decades, driving organizations to consider how an investment designed to meet its 2030 goal will align with a far more aggressive, future 2050 goal. Developing a sustainability master plan is a necessary tool to ensure organizations can state, meet and achieve their stated commitments.

ABOUT THE RESEARCH

This report summarizes results based on a survey of the GreenBiz Intelligence Panel, consisting of executives and thought leaders in the area of corporate environmental strategy and performance. Panel members participate in brief monthly surveys to provide their expertise and perspective on corporate initiatives, laws and regulations, and scientific advances that are shaping the corporate sustainability agenda.

The "Corporate Sustainability Goal Setting and Measurement" report presents the findings of an online survey conducted by GreenBiz Group in late December 2020 and early January 2021. An email link was sent to the panel's 4,382 members inviting them to participate anonymously in the survey. For the purposes of this report, we analyzed the results from 490 respondents who represent 14 industry sectors. Approximately 85 percent of these respondents are based in the United States.

It is important to note that the quantitative data in the report may skew higher than if the panel was representative of a broader demographic that included executives and managers not necessarily focused on their company's environmental and social corporate sustainability efforts. However, the responding companies represent a broad span of diverse corporate sustainability experience, including those just beginning to engage in corporate sustainability as well as those that have been engaged for years.

Sustainability Toolbox

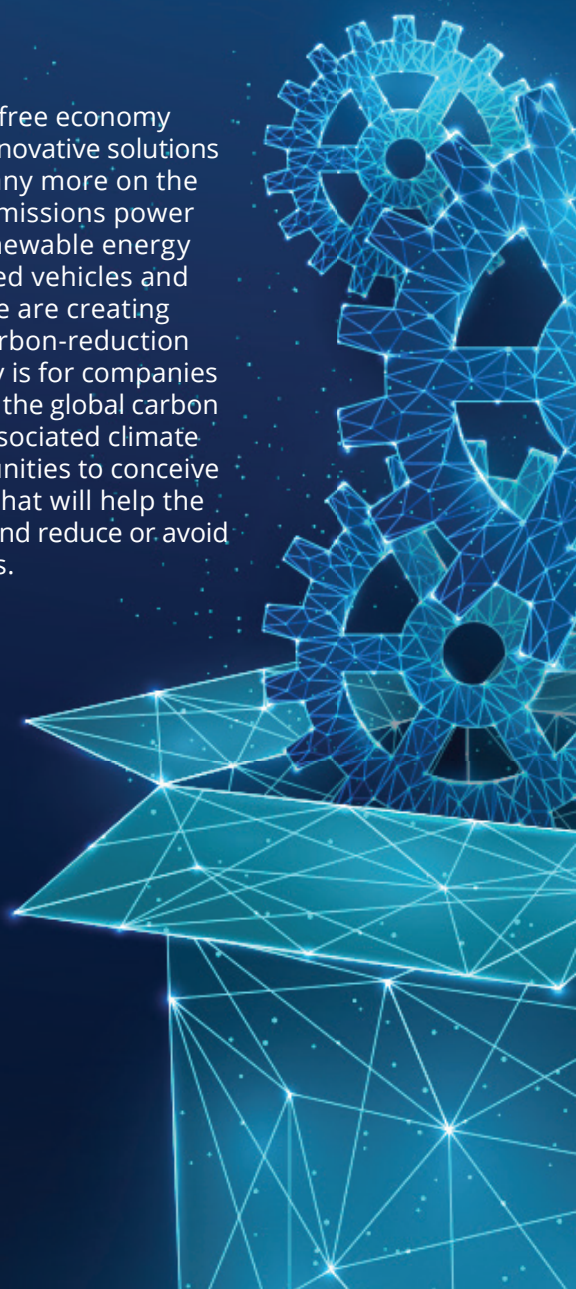
Corporate leadership teams across all sectors are working to accelerate the shift from discussing and establishing sustainability goals to actively delivering tangible results. Yet, as research conducted for this report indicates, many companies continue to establish targets without a clear understanding of how to actually achieve these goals. An effective decarbonization roadmap will help companies better manage limited budgets, comply with complex regulation and provide a more certain return on investment than those based on enthusiasm, moonshots and ad hoc planning.

The reality is this: Sustainability strategies are becoming increasingly complex and require companies to take the long view.

It's not a difficult concept – enterprise-level power, water and communications infrastructure assets often have operational horizons that span decades, so companies need to understand how important it is to avoid getting locked into one technology path, or even stranding assets, without understanding the alternatives. By having a clear understanding of technology maturity and cost, as well as the changing regulatory environment, companies can avoid these pitfalls.

As a global leader in the design and implementation of sustainable energy, water and communications assets, Black & Veatch works with its clients to explore technology and infrastructure solutions, as well as the environmental, economic and data management tools that can help projects and operations adapt in the face of extreme environmental, social and regulatory risks. The global engineering leader can provide a toolbox and strategy that will drive more sustainable and cost-effective business models that achieve sustainability and decarbonization goals.

Transitioning to a carbon-free economy will take time, but many innovative solutions are already here, with many more on the horizon. Low- and zero-emissions power generation, advanced renewable energy projects, alternative-fueled vehicles and expanding energy storage are creating an entire ecosystem of carbon-reduction technologies. Now the key is for companies to identify their impact on the global carbon cycle, comprehend the associated climate risks and identify opportunities to conceive a strategy and roadmap that will help the business remove carbon and reduce or avoid greenhouse gas emissions.



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