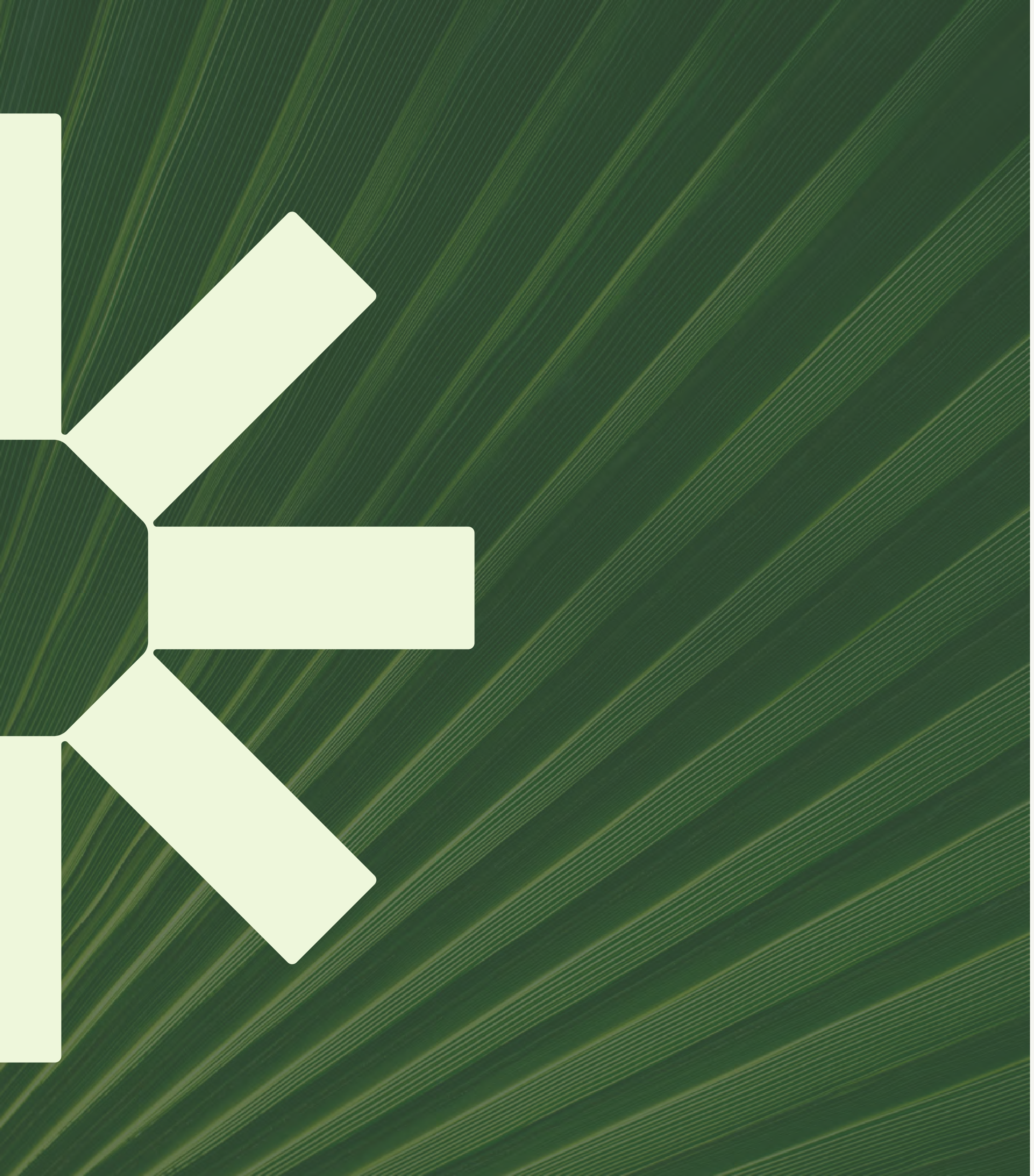

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Actions for Business Report 2023

MAKING SUSTAINABILITY HAPPEN

WRITTEN IN COLLABORATION WITH SLR'S GROUP BRANDS

CORPORATE CITIZENSHIP

Finch & Beak SUSTAINABILITY STRATEGIES

RCS GLOBAL GROUP

BUSINESS FOR SOCIETAL IMPACT CORPORATE CITIZENSHIP

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Introduction

Welcome to SLR's Actions for Business report, where we explore the topics that we believe will **shape the responsible and sustainable business agenda in 2023**. Previously produced by Corporate Citizenship, this report now brings in voices from across our wider group's Strategic Advisory colleagues.

The year ahead is likely to be a tumultuous one; with global challenges around supply chain shocks, energy acquisition and efficiency and human rights dilemmas bringing further into focus the growing expectation for businesses to pay close attention to and report accurately on their impacts.

Businesses have a clear role in addressing these challenges, and regulators and society are unlikely to shy away from holding them to account. Leading companies have already begun to pay closer attention to these issues and their role in combating them, but 2023 is set to ignite a fire under existing efforts.

Against this backdrop, this report looks at how companies can respond to these shared global challenges with strategic thinking, authenticity and a collaborative approach. Putting the right resources and capabilities to work, these issues present real opportunities across many sectors. That is why our report includes key questions for your organisation to consider against each topic, and
is intended to support your efforts in Making Sustainability Happen.

To learn more as we unpack the chapters throughout the year, we encourage you to sign up to our complimentary Monthly Briefing, by visiting:

corporate-citizenship.com/subscribe/ >

1

ESG Ratings and Disclosures

The imperative of credible data

By Charlie Hodkinson-Ashford & Nikkie Vinke

Over the last decade, companies have been increasingly bombarded with ESG disclosure requests from ratings agencies, investor coalitions and other stakeholder-led initiatives. The challenge for many companies has been one of prioritisation – choosing where and where not to engage; where to disclose fully and where to do the bare minimum.

This is not the case for ESG reporting requirements now imposed by governing bodies, such as the UK's mandatory TCFD reporting, or the forthcoming EU Corporate Sustainability Reporting Directive and the US SEC's proposed climate disclosure requirements. These come alongside heightened focus on greenwashing, including scrutiny of corporate Net Zero pledges.[1] To ensure credible and consistent reporting, regulators plan to oblige external assurance of reported ESG data.

As the reporting maze continues to expand, there is movement towards convergence of voluntary and mandatory reporting standards.

For example, CDP[2] and MSCI[3] have both announced plans to incorporate emerging regulatory standards into their frameworks, and CDP will also provide the platform for proposed Federal supply chain requirements in the US.[4] In theory, this is good news for companies and their stakeholders, reducing the reporting burden and setting a baseline for common reporting. In practice, companies will likely face a fragmented and even contradictory set of disclosure requirements across jurisdictions, at least in the short term.

Whatever the outcome, compliance is not leadership. While they must ensure the basics are covered, leading companies will continue to be those that communicate their own sustainability path to investors and other stakeholders, in terms of material risks and opportunities, business drivers and key impacts. Standardisation of ESG disclosures is not an end in itself, but should give companies the freedom to focus on defining their long-term strategy for value creation and sustainable development.

1 https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf
2 https://www.cdp.net/en/articles/companies/cdp-to-incorporate-issb-climate-related-disclosure-standard
3 https://www.msci.com/www/events/2023-msci-esg-ratings-model/03437823870
4 https://www.sustainability.gov/federalsustainabilityplan/fed-supplier-rule.html

Actions for Business

Understand the landscape:
To which mandatory reporting requirements is your company exposed? Are you aware of the different regulations in place in all the jurisdictions where your company is active?

Strengthen processes and controls:
Does your company have a clear view of the breadth and depth of its ESG disclosures, both mandatory and voluntary? Do you have a defined data collection and disclosure governance process, in collaboration with sustainability, finance and legal teams?

Maximise impact and materiality:
Have you defined your company's most material environmental and social risks, opportunities and impacts? Are you using this understanding as the basis for your sustainability strategy?

2 ESG Backlash

An opportunity to strengthen credibility and avoid greenwashing

By Joe Payne & Layalee Ramahi

"Loopholes wide enough to drive a diesel truck through." This was the frank assessment of UN Secretary-General, António Guterres, as a UN expert group launched efforts to crack down on the greenwashing of global climate targets at COP 27 in November 2022.[1]

It is estimated that government and corporate Net Zero pledges now cover 83% of global GHG emissions,[2] and yet, at their current rate, listed companies will have burned through their remaining carbon budget by 2026,[3] while only 12% of investment funds that describe themselves as using green or environmental language are aligned with limiting temperature rise to below 2°C.[4]

Despite a proliferation of standards and good intentions, global emissions are rising faster than ever, and the entry of an "anti-ESG" sentiment is adding fuel to the credibility crisis that corporate sustainability is facing.

From H&M being asked to clarify sustainable product labels,[5] the dramatic raid of Deutsche Bank's DWS Asset Management over suspected green investment fraud[6] and the SEC fining BNY Mellon for misleading ESG statements,[7] to KLM[8] and TotalEnergies[9] being sued for greenwashing ads, in 2022 regulators and consumers increasingly cracked down on ESG claims.

Stakeholders are catching up with the post-Paris explosion of environmental commitments and standards, and appear increasingly emboldened to hold companies accountable for misleading messaging that falls short of the deep action needed to address climate change and other global crises.

As the UN experts highlight, it is scientifically and ethically inadequate to communicate a long-term climate goal, without an actionable Just Transition plan to achieve interim, Paris-aligned milestones that prioritise the permanent and additional reduction of global GHG across the full value chain.

As customers become increasingly savvy about sustainability claims, and regulators crack down in the face of slipping climate targets and sustainable development goals, there will be a growing backlash for those that fall short, but an opportunity (and a risk management necessity) for companies to establish credibility, be consistent across their business activities, and demonstrate real progress.

1 https://www.theguardian.com/environment/2022/nov/08/un-experts-demand-crackdown-on-greenwashing-of-net-zero-pledges-cop27
2 Net Zero Tracker (2022): https://zerotracker.net/
3 MSCI Net Zero Tracker (October 2022): https://www.msci.com/research-and-insights/net-zero-tracker
4 S&P (June 2022): https://www.spglobal.com/esg/insights/featured/special-editorial/green-funds-have-a-paris-alignment-problem
5 https://www.edie.net/hm-promises-clearer-labelling-after-dutch-regulator-rings-greenwashing-alarm-bells/
6 https://www.bloomberg.com/news/articles/2022-05-31/deutsche-bank-s-dws-unit-raided-amid-allegations-of-greenwashing
7 https://www.sec.gov/news/press-release/2022-86
8 https://www.reuters.com/business/aerospace-defense/dutch-airline-klm-sued-over-greenwashing-ads-2022-07-06/
9 https://www.reuters.com/business/sustainable-business/environmental-groups-sue-totalenergies-over-climate-marketing-claims-2022-03-03/

Actions for Business

Leveraging best practice
As the market responds with new taxonomies and standards, how well positioned is your organisation to interpret and integrate these efficiently and consistently?

Supervising sustainability risks
Do your governance and compliance structures enable adequate supervision of greenwashing risks that may arise in different areas? Are your board and management sufficiently up to speed on emerging expectations?

Put your investment where your mouth is
Are your sustainability commitments and targets backed up by informed and realistic implementation and investment plans that prioritise impact and additionality? Are your climate transition plans prepared and reported in line with the latest standards?

3 Energy Transition

Priorities in 2023
By Paul Wilkinson

To meet our commitments under the Paris Agreement, it is critical that we continue to transform our energy systems across the entire economy. The clean energy transition is gathering pace, supported by competitive technology solutions, political commitment, aligned incentives and policies (e.g. European Green Deal), and a wave of new climate finance. However, this isn't without its challenges.

We are faced with the trilemma of needing to rapidly decarbonise our economy, while meeting our ever-precarious energy security needs, and ensuring that the transition is "Just", leaving no-one behind, especially vulnerable communities. Recent geopolitical and macro-economic events, including the war in Ukraine, have further intensified this challenge.

The clean energy transition is also constrained by the availability of critical raw materials (e.g. lithium, rare earths) for electric vehicles, wind turbines and solar panels. Primary extractives present their own significant environmental and social challenges, so this is without doubt a complex and multi-faceted problem, requiring additional focus on circularity and supply chain sustainability. On a positive note, we are experiencing unprecedented levels of investment and change across the whole energy value chain, and, at SLR, we are proud to be part of solving this intractable problem, bringing to it both clarity and pragmatic solutions and ultimately "Making Sustainability Happen"

Actions for Business

Explore opportunities for onsite, decentralised renewable energy generation and storage to meet operational needs (eg heat pumps, solar PV, wind, battery).

Undertake technical feasibility assessments for fuel switching and/or energy efficiency options to decarbonise your most intensive processes.

Explore the broader energy transition "ecosystem" local to your business operations, and become an active member of regional zero/low-carbon hubs.

4 Climate Solutions & Positive Impact

Beyond "Net Zero"

By James Balik-Meacher & Chloe Parkin

Since the launch of the SBTi Net-Zero Standard in October 2021, the pressure on companies to align on the definition of Net Zero has accelerated. This shift has been as rapid as it has been necessary, to avoid confusion about terms and ensure the integrity of climate targets for businesses. A recent UN report on the state of company targets has only continued to highlight the need for alignment.

A core part of the SBTi standard, and of the recognised definition for Net Zero globally, is that companies must first drastically reduce emissions in both the near and the long term, and then begin to actively remove carbon from the atmosphere to counter the hard-to-abate residual emissions. This stands in contrast to a lot of "carbon-neutral" approaches, where companies have been purchasing carbon credits – or offsets – that reduce or prevent emissions outside their value chain, but don't directly reduce the companies' own emissions, and don't necessarily contribute to the removals needed for true Net Zero.

While this additional robustness and tightening of definitions is admirable, and is preventing (or at least highlighting) greenwashing from companies overstating their claims, this shift from offsetting to a sole focus on carbon removals is causing its own issues.

As stakeholders become more aware of the broader challenges facing the planet, a narrow, standards-driven climate strategy is no longer enough. It is the baseline requirement for a seat at the table, but any company looking to lead, or even stay with, the pack in its climate strategy, is going to need to look beyond these criteria and develop a more holistic approach.

These measures may take the form of traditional carbon credits. However, when freed from the shackles of "carbon neutrality" claims, companies may also choose to take a different approach, funding projects that are essential. This can help bolster stakeholder engagement, and give companies scope to have a wider impact beyond the confines of the necessary standards to which they are now being held.

Actions for Business

When it comes to your company's future strategy, do you have a focus on value-chain decarbonisation?

Does your organisation acknowledge the need for carbon removal, and plan for this in your future outlook?

Does your organisation support immediate, beyond value chain, mitigation projects, necessary at a global scale to support the transition to a low-carbon economy?

5

Sustainable & Responsible Supply Chains

In the context of deglobalisation
By Harrison Mitchell & Nick Garrett

Geopolitical instability, a global pandemic and domestic policy shifts in a swathe of countries, have catapulted deglobalisation from concept to increasing reality. From Australian wine exporters to Korean semiconductor manufacturers, cracks in the hyper-connected global economy are having material impacts on supply chains.

For sourcing and procurement teams within original equipment makers (OEMs), the seeming shift to deglobalisation may be an opportunity. There is growing discussion as to whether deglobalisation is triggering a shift from "just-in-time" to "just-in-case" sourcing, as global supply chains become less reliable. There is evidence that manufacturers are becoming more willing to invest more time and money to build up stable, secure and high-quality inventories, resilient to global shocks. This offers an opportunity for OEMs to work with stable suppliers to build stronger responsible and sustainable practices into any sourcing agreements, should the lean, just-in-time sourcing model soften even slightly.

But there are also risks and challenges. For example, considerable success has been seen over the last decade in areas such as global co-operation on standards and frameworks for responsible sourcing. However, there are some signs that governments are starting to rethink responsible sourcing legislation, especially if it can potentially offer comparative advantage. This is a mistake. To embed real sustainable global supply chains we need more, not less, global co-operation on good practice regulation and standards.

Overall, some deglobalisation is happening. But global supply chains remain hugely interconnected, and it is unclear how large-scale, systemic deglobalisation helps anyone or any state. In reality, we are probably seeing a new kind of globalisation, rather than the end of globalisation.

Actions for Business

Does your organisation enable sourcing teams to **work strategically to embed supply chain stability** and sustainability together? Does the need for more robust supply chains offer your organisation an ESG opportunity?

How can your organisation **maintain consistency on responsible and sustainable sourcing** as new, potentially competing, needs emerge within procurement decision-making?

How can you and your colleagues **collaborate with industry peers**, to ensure any apparent deglobalisation is not hijacked by bad actors looking to leverage the debate to backslide on commitments to responsible and sustainable sourcing?

6 Heightened Focus on Human & Labour Rights

As companies grapple with trade-offs during the coming recession
By Sarah Zoen & Rupali Patni

It has been over ten years since the UN Guiding Principles on Business and Human Rights (UNGPs or the "Ruggie Principles") became the universal framework for companies to manage human rights impacts and risks on people and communities. The need to raise ambition is now more urgent than ever. The pandemic highlighted the extreme vulnerability and precariousness of supply chains where workers, predominately low-wage and informal workers, have been hardest hit. A recession is at the doorstep for many, and, to support supply chain continuity, companies need to prepare for future shocks to their workers. Companies are responding to these impacts by committing to a living wage (Unilever and L'Oréal commitments) and expanding opportunities for hourly workers to access training and upskilling resources (Amazon training programmes).

Added to this, is the fast-developing regulatory landscape in Europe and elsewhere. Germany and Norway have both passed legislation in the past two years, mandating human rights due diligence for companies of a certain size (3,000 or more employees for the German law and a combination of revenue/balance sheet/and number of employees for the Norwegian law). A recent assessment by the World Benchmarking Alliance, found that 84% of US companies scored zero on human rights due diligence, compared with 59% of companies from other G7 countries.

Now is the time for organisations to ramp up their ambitions, by taking a leadership approach to embedding human rights due diligence.

Actions for Business

Has your organisation developed a human rights policy commitment? This is the first step a company can take to meeting the expectations of the UNGPs. The Corporate Human Rights Benchmark provides guidance on the core elements needed.

Has your organisation assessed the risk in your operations and supply chain through a salient human rights assessment? For human rights due diligence to be done well and meaningfully, your organisation needs to know where the most severe, or most salient, human rights risks exist for the business.

Has your organisation set up stakeholder engagement channels that are effective and accessible? The UNGPs call on companies to focus on risks to people and rights-holders, means establishing dialogue and trust with stakeholders (workers, communities, trade unions, grassroots organisations, etc).

7 Embed & Measure S in E Strategies

People are the key to Making Sustainability Happen

By Hannah Harper & Clodagh Connolly

It is still very much the case today that, in most businesses, environmental E and social S strategies of ESG practitioners are being treated in silos. While it is recognised that climate change impacts businesses in a wide variety of ways, ranging from physical damage from weather events to reputational risks, as climate regulations shift to human impacts that affect worker health, productivity and wellbeing, businesses will need to start linking their E and S efforts together.

When it comes to typical approaches, strategies in the E space often concentrate on quantitative metrics and targets, reporting against scientific frameworks, while the S impacts are grouped into CSR departments and social impact activities. However, there is growing attention on the intersection between environmental and social issues, as people-focused concepts such as Just Transition and Environmental Justice come to the forefront of the climate change and the environment conversation.

For the future, government frameworks, social licence to operate and investor vetting processes will increasingly focus on a people-centred approach, in acknowledgement that climate change has differing social, economic and public health impacts on individuals and communities. Transitioning to low-carbon systems must be as fair and inclusive as possible to all stakeholders, maximising the social and economic opportunities of climate action.

As this shift and the requirements needed are acknowledged by business, many companies are starting to find new ways to entwine their S and E strategies, and to develop shared value programmes to combat the climate crisis. At the heart of this approach is the recognition that S is the strength of ESG, as it is driven by people, impacts people, and relies on people to find solutions to our climate crisis.

While these concepts may seem complex, embedding and measuring the S in E strategies often requires a simple shift in activity scoping and assessment. Many E activities intrinsically have S impacts, and vice versa. For example, IHG Hotels & Resorts has partnered with VietHarvest's Food Rescue programme, to reroute food waste from hotels to feed vulnerable communities in Hanoi, decreasing the amount of food going to landfill and positively impacting food security. Another example is the Co-op's partnership with Bell's and ClimateCare to restore peatlands in the UK, which has had positive environmental impacts such as restoring and protecting habitats for insects and birds, while also creating positive social impacts by decreasing flood risks for local communities.

Some strategic thinking and the complex can become as easy as ABC.

Actions for Business

Align existing E strategies to a people-centric approach, by identifying and engaging key stakeholders throughout the strategy development, implementation and measurement phases.

Break internal E and S silos within the business bringing the expertise of both teams to create "double win" KPIs in projects.

Create public reports articulating the impacts your strategy is making on both the E and the S.

8 ESG in an Economic Downturn

Making smart investments
By Abby Davidson

As we enter 2023, businesses face the twin challenges of balancing the expectation to perform on ESG, and a looming economic downturn with cost pressures. Some have questioned whether, in an economic downturn, ESG (or, more simply put, sustainable and responsible business) will stay as a priority, or will be cut from the budget as a "nice-to-have".

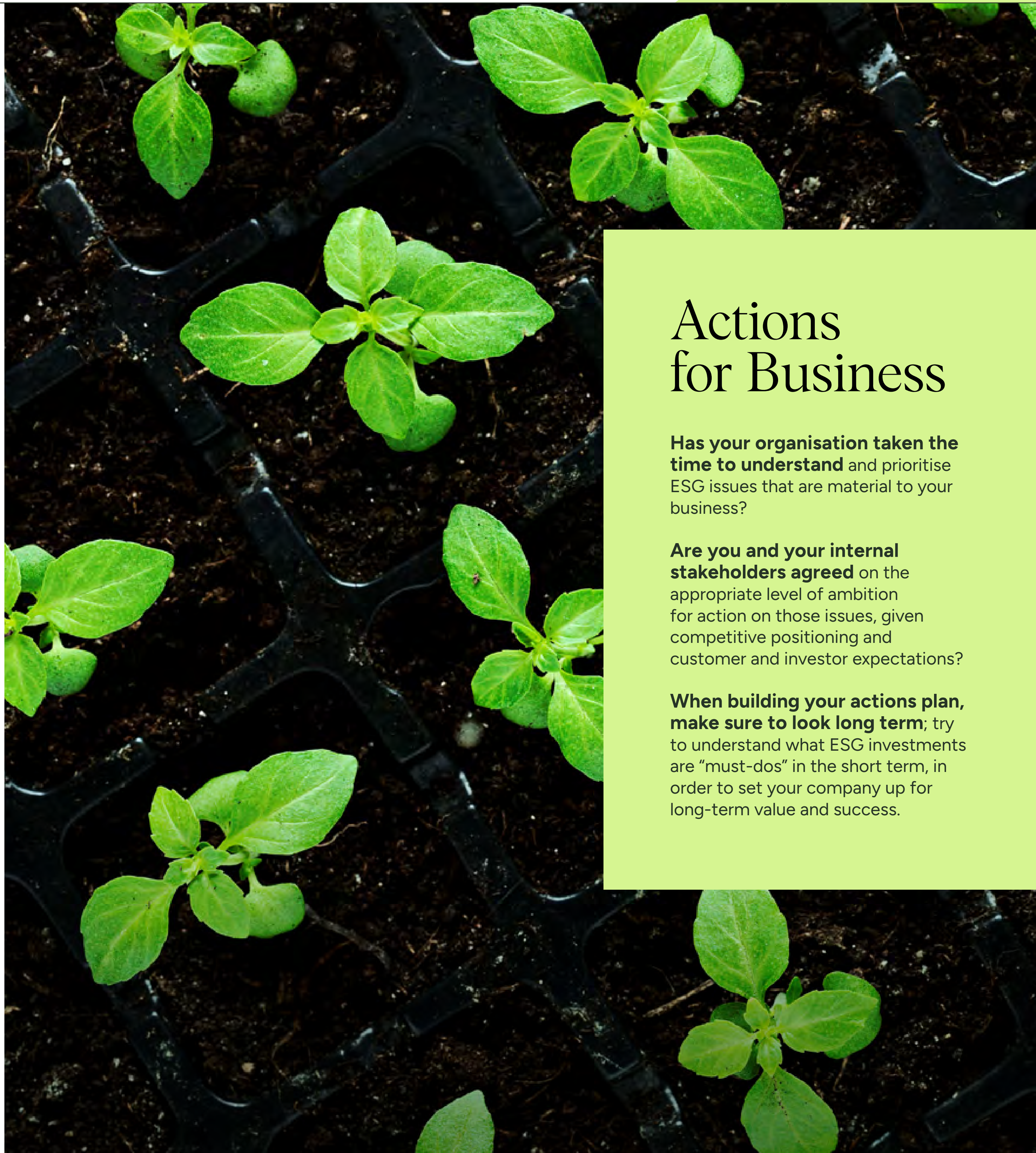
It's worth remembering that stakeholders asked these same questions in the spring of 2020, when the world saw an historic GDP drop, due to economic fallout from the Covid-19 pandemic. Yet ESG stayed firmly on the agenda in 2020, due to investor expectations, regulatory requirements, customer criteria, and a talent market that demanded values alignment. These pressures remain today because, ultimately, ESG is about value creation in the short and long term.

With the obvious uncertainty aside, the sustainable business revolution already under way will continue to present organisations with a host of opportunities going into 2023. The transition to a green economy, for example, presents an historic innovation opportunity. Organisations will have to listen carefully to the changing behaviours and expectations of their markets, and respond accordingly, in order to stay relevant to their existing customer base and tap into new opportunities.

Looking inwards, organisations will also need to start taking their ESG initiatives even more seriously. Calculating a carbon footprint and setting an emissions reduction target are now "must-haves" for companies, as investors, customers and regulators require them. And a strong approach to diversity, equity and inclusion is no longer optional for any company aiming to attract and retain top talent.

In Europe, human rights due diligence is also becoming mandatory for certain companies, and strong fundamentals for data privacy, cybersecurity, enterprise risk management and ethics and compliance – all core elements of governance, the G in ESG – are now legal requirements.

So, in a context of rising cost constraints, how can companies separate the "must-haves" from the "nice-to-haves" and ensure they are paying close enough attention to the areas where their efforts are most needed?



Actions for Business

Has your organisation taken the time to understand and prioritise ESG issues that are material to your business?

Are you and your internal stakeholders agreed on the appropriate level of ambition for action on those issues, given competitive positioning and customer and investor expectations?

When building your actions plan, make sure to look long term; try to understand what ESG investments are "must-dos" in the short term, in order to set your company up for long-term value and success.

9 Natural Capital

A financially material issue
By Stewart Lenton & Sue Swain

Most businesses have at least some understanding of their impact on the climate and how climate change will affect them, with goals and actions set to drive change and manage risk. Many see the opportunity to develop and enhance their brand and reputation.

However, what is less well understood, is that all businesses have impacts and dependencies upon nature and that this, in turn, similarly gives rise to risks and opportunities. More than half of the world's economic output – US $44tn of economic value generation – is moderately or highly dependent on nature.

Stakeholders are increasingly recognising this dependence on nature, with the introduction during 2022/23 of a number of new reporting frameworks, together with updates to established reporting to include a requirement to understand and disclose impacts upon nature.

Many organisations look at their existing activities and see little impact other than their original development footprint, but real impacts are often spread across their whole value chain. So understanding both upstream and downstream activities, and how they might impact upon nature, is increasingly important.

Value chains are often complex, and this can be a daunting challenge, but starting at a small scale is realistic and there can be many opportunities to reduce costs, minimise risks and gain traction from a reputational perspective.

Actions for Business

Can your organisation start small in its understanding of Natural Capital? For example, the use of pilot studies can be valuable to help you understand what you know and what gaps you have in the data you will need.

Is your organisation fearful of what can seem a monumental task? It's important to recognise that it is unlikely that you will be able to pull together all the information that you need at first; this will take time and is likely to come through an iterative process.

Is your organisation taking steps to start as early as possible, and engaging external help? This will enable you to develop a progressive strategy towards understanding your organisation's relationship with nature, and be better able to report on this. This will create a long-term competitive advantage.

10 Regenerative Business Models

A new frontier

By Petra Parizkova

2022 was a year of major political, economic, social and environmental shocks, with inequalities continuing to rise. The after-effects of the pandemic are still having major repercussions on the economies of many countries and global supply chains. 2022 also saw the rise in the use of such terminologies as the "Just Transition", increased calls to provide climate finance support to vulnerable low-income countries and create more nature-positive approaches. With the current consumption patterns[1] of natural resources, it is growingly more evident that we cannot maintain our present reductionist approaches and need to find ways to replenish resources for future generations.

Companies are beginning to take up a new approach to rebalance, replenish and regenerate the social and environmental ecosystems in which they operate with what has been coined as a business model.[2] This model is rooted in systems thinking and the need to recognise and understand the complexity of the dynamic systems in which companies operate. It builds on net positive thinking, which has historically been closely associated with the environmental sphere, but challenges companies to also consider how it can apply to social issues.

Regenerative business models also embrace concepts such as circular economy, where materials flow continuously with little or no waste or loss of quality. As an example, such companies as Unilever and Nestlé are actively looking at the roles they play in regenerative agricultural systems, and working to regenerate water and soil, among other resources.

In its simplest form, regenerative leadership is leadership that is rooted in systems thinking, thus focusing on understanding the holistic and complex system that the individual or business finds themselves in. The system is dynamic and considers nature as an inspiration for action. Regenerative thinking will be a big departure for many companies that have been historically focusing on making sense of a problem in an isolated environment, focusing on mitigation and impact reduction.

1 As of 2013, the world's population would need 1.7 Earths to support its demands on renewable natural resources, according Global Footprint Network, a nonprofit organisation that calculates human demands on the planet's ecosystems.

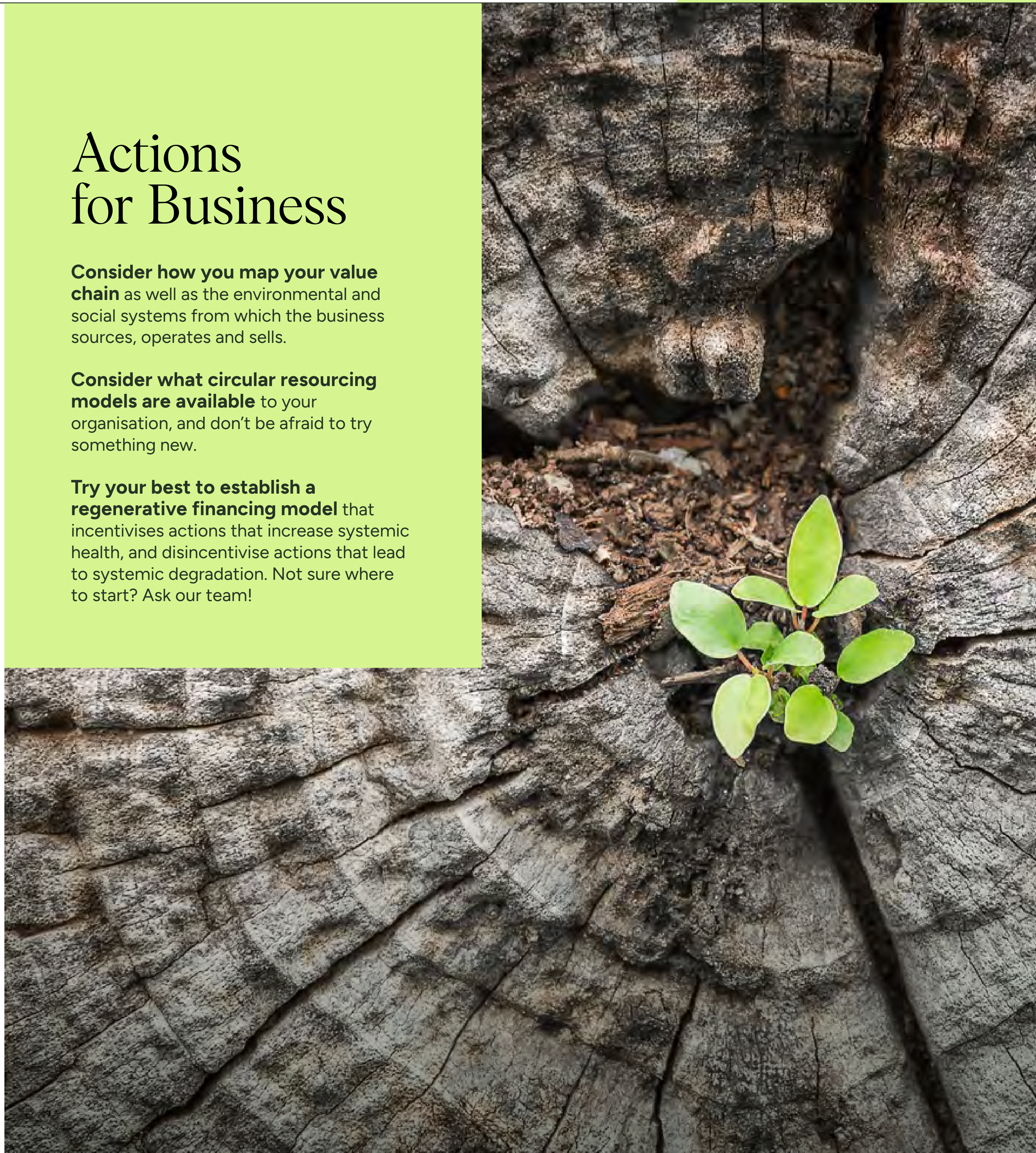
2 As of 2013, the world's population would need 1.7 Earths to support its demands on renewable natural resources, according Global Footprint Network, a nonprofit organisation that calculates human demands on the planet's ecosystems.

Actions for Business

Consider how you map your value chain as well as the environmental and social systems from which the business sources, operates and sells.

Consider what circular resourcing models are available to your organisation, and don't be afraid to try something new.

Try your best to establish a regenerative financing model that incentivises actions that increase systemic health, and disincentivise actions that lead to systemic degradation. Not sure where to start? Ask our team!



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