Driving the sustainability agenda post COP26

December 2021

By Richard Threlfall, Global Head of KPMG IMPACT and Global Head of Infrastructure, KPMG International

(4 min read)

Key takeaways:

- *A commitment to ESG targets and reporting presents an opportunity to build truly sustainable business models.*

COP26 has placed climate change front and centre, and companies have a huge role to play in tackling this existential challenge. Many have set net-zero targets and are at various levels of maturity in their decarbonisation plans. But, as we are all aware, there is a long way to go. This is why the announcement in Glasgow of a new International Sustainability Standards Board (ISSB) is so significant.

For the first time, sustainability reporting is being elevated to the same level as financial reporting, and moving another step closer to a single, global standard. The ultimate goal is to enable investors, customers and other stakeholders to assess and compare all companies, worldwide, on their environmental, social and governance (ESG) performance.

This latest development in 'stakeholder capitalism' sends a clear message that corporate success is no longer solely defined by profit, but by an organisation's impact on society and the environment.

Sustainability reporting presents a great opportunity to accelerate a business's ESG evolution, becoming more resilient to climate change and less reliant on fossil fuels and other finite resources. By measuring and reporting ESG risks, companies show shareholders and other stakeholders that they can manage these risks better and deliver greater long-term value, thus enhancing their license to operate.

Planning for decarbonisation

As countries adopt the ISSB standards, companies will have to be ready for a rapid implementation, putting in place metrics, gathering data and producing reports in the appropriate format. ESG risks are different from traditional financial risks and may call for new skills in areas like scenario analysis and forward-looking measurements, to ensure disclosure meets regulatory requirements.

Net-zero touches every part of a business. Decarbonisation plans must, therefore, acknowledge the huge impact upon the entire value chain, including R&D, product design, manufacturing and operations, as well as key relationships with suppliers, distributors, logistics providers, retailers, and other business partners.

India too, has pledged to cut its emissions to net-zero by 2070 at the COP26 Summit at Glasgow. However, achieving this target could be a tough grind for India as the country's energy demand is expected to rise sharply over the next decade as the economy continues on its growth trajectory.

The most feasible pathways to net-zero emissions would include generating electricity without emissions, using vehicles/equipment powered by electricity instead of fossil fuels and removing carbon dioxide from the atmosphere. More efficient technologies and processes that reduce energy use can also reduce emissions significantly.

With all this to consider, turning climate pledges into action won't be easy – as I know from my first-hand experience in helping put together KPMG International's own decarbonisation plan. A recent KPMG article, Net-zero commitments: Where's the plan? emphasises the need to integrate a company's decarbonisation plans into corporate strategy, with realistic, science-based targets, robust financial and operational plans and forecasts, full transparency over metrics, and timely disclosure. And with technology and regulations constantly evolving, plans should be flexible enough to adapt swiftly to changes.

But once the wheels begin to turn on the ESG evolution, the benefits are expected to emerge, as employees, consumers and investors buy into a company's vision and purpose.

Don't forget the 'S' and 'G' in ESG

Climate change may have been the focus of attention at COP26, but a sustainable business must also commit to other environmental, social and governance ambitions, such as reducing pollution and waste, embracing diversity, contributing to local communities, treating employees and customers fairly, paying taxes, and much more.

ESG reporting should reflect companies' commitment to the United Nations' Sustainable Development Goals (SDGs), to tell a positive story to the world and assure shareholders and lenders – who are also under pressure from regulators and the market to prove that they're acting responsibly and investing sustainably.

ESG is not just something you do; it's everything you do and how you do it. A robust impact plan, along with strong, transparent reporting, tells the world that a business is set up to thrive in a sustainable world.