

KANTAR + KPMG

Understanding New Zealand's sustainability transformation landscape

December 2023



Achieving meaningful sustainability outcomes will mean real transformation for most, if not all, organisations.

As we reflected on 2023 and looked to the major challenges and priorities for sustainability in 2024, we decided to ask those in the market what they thought.

KPMG commissioned Kantar to interview a number of leading sustainability professionals across New Zealand's public and private sectors for their view on how well we are embracing sustainability transformation.

The views in this report are theirs, consolidated by Kantar – outlining the impetus for change, where there are barriers, and how the consulting industry can best support organisations.

This is not a challenge for one organisation. We need transformation across the economy, so we decided to share the findings of this report with everyone interested in supporting the move to a low-emissions, inclusive and resilient future.

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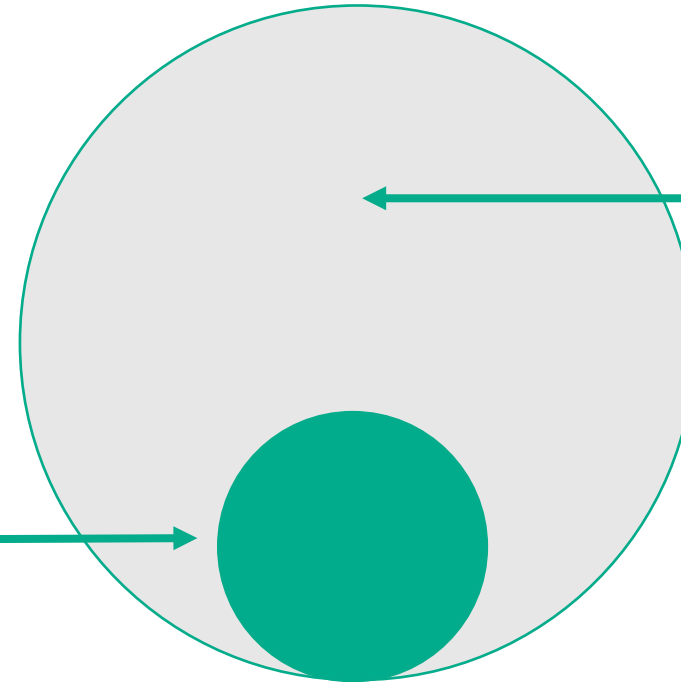
Understanding the corporate context of sustainable change



The demand for specialised skillsets exists within a broader framing of sustainable change or transformation at the business level.

The demand for the specific technical expertise areas of interest.

Climate Change, Sustainable Finance, Decarbonisation, Environment, Social and Governance (ESG) issues.



The demand for meaningful change at the business level.

This is the level at which senior decision makers are viewing the business and market opportunities and challenges that exist.

This report takes more of a focus at this higher level.

We can understand the evolving state of play via two frameworks; firstly, an evolution in where the impetus for change sits within organisations...

Stage 1

Sees a sustainability manager in a combination role – often communications. Here Corporate Social Responsibility (CSR) is the focus of the role and sustainability managers pushed upwards.

Stage 2

Sees the dedicated specialist sustainability manager beginning to have some influence.

Stage 3

Sees these dedicated role or combination role sustainability managers work into more senior C-suite roles.

Stage 4

Sees governance-led sustainability initiatives within an organisation but it is data-driven from the top level down.

Stage 5

Is when the role of governance comes into play more, with judgement and discernment becoming a greater part of decision making.

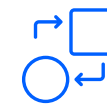
- This model reflects the general shape of evolution of internal sustainability impetus within business, but it will not describe all business.
- While the main drive for sustainable change increasingly comes from the top, the overall lack of progress and the significant barriers to progress reported by both Non Executive Directors (NEDs) and senior C-suite managers means that targeting both the governance level and the management level remains a priority.
- Within the governance level, however, as business transformation is often a values-based decision more than a commercial one, the role of the chairperson is increasingly central.

...and secondly, a framing of the progress towards sustainable transformation. This second framework is key because there is considerable cynicism regarding New Zealand's current place within this evolution.



Reporting and the systems that support it

- Mandated.
- Mostly compiled in the corporate sector and highly variable among smaller organisations.
- Link to business performance is unclear or negative.
- Link to sustainable transformation of the business appears minimal.



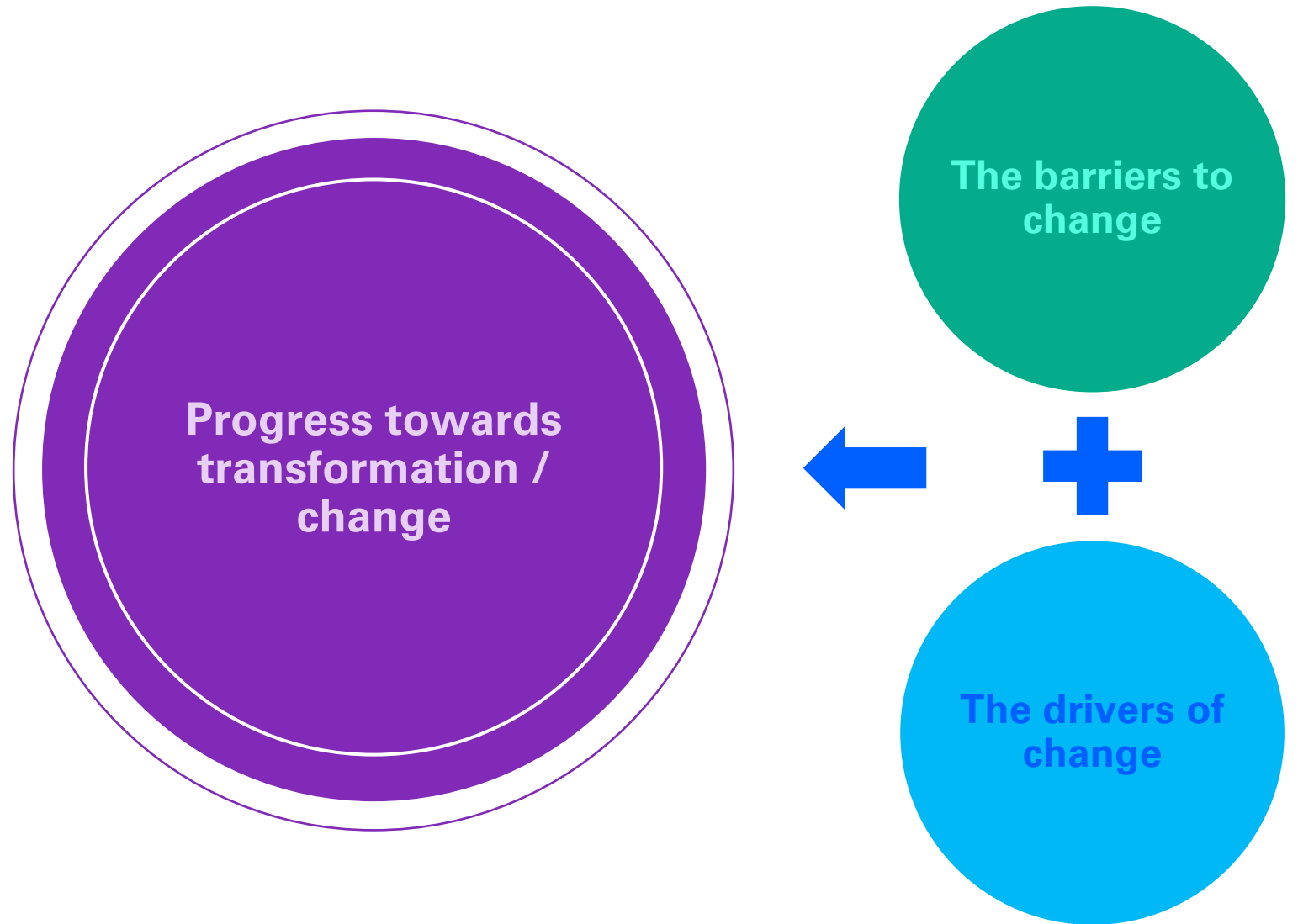
Changing the way that we do business

- Some demand-led impetus depending on industry. Minimal values-based impetus.
- Widely perceived that progress is slow and sporadic, and certainly behind the Northern Hemisphere.
- Businesses could and should be having a far greater influence than it currently are.
- There is a strong sense of a lack of action or, in some cases, denial.



- We're at the front edge of the limit of our current system's ability to do what we can.
- A lot of businesses are still in the compliance / marketing space – because they have to do it versus moving up the maturity curve to embed ESG decision making.
- So, we finished all of that work, but since then we had to fight really hard for the 'so what?' We got there, but it was only the extreme weather of the last year that got us there.

The slow and sporadic nature of New Zealand's current progress beyond reporting meant that most of the conversations focused on the current barriers to transformation, rather than its drivers.



02

The barriers to sustainable change

The first of these barriers is the focus upon reporting itself, and the complacency this can produce.

The focus on reporting has, for many, become an end in itself, which can produce a sense of achievement or complacency that commitments have been met. Similarly, it means that the things that are easy to change have often already been done, and that only difficult challenges lie ahead.



Market Views

When I think about the amount of effort that we put into the 10 pages in the annual report it is almost equivalent to what we've achieved as an organisation.

Climate-related financial disclosures (CRFD) are our biggest focus – more than any broader ESG commitments. The investment in time here is disproportionate due to the need to keep the Financial Markets Authority (FMA) and Reserve Bank of New Zealand (RBNZ) happy, but this hasn't produced any new products or services or ways of running our business. And the setup costs of CRFD is very high so it's very distracting.

There is an infatuation with measurement.

We are the first country in the world to mandate CRD but are still very much about compliance versus assessing the big changes that are required.

We're starting to see a lot more meaningful accreditation now. Because when you've worked with a few of them you can essentially work out how to game them without necessarily changing behaviours.

However, there are also instances where – under the right governance – CRFD has produced the necessary drive for further change:

If you do a proper analysis of your risks and opportunities, then you're either part of the solution or realise that it's untenable.

The power of disclosure is very motivating so increasingly you'll see companies and sectors wanting to discuss transformation.

There is a fear of change - with greenwashing legislation playing a significant role.

There is significant fear of change, particularly as it relates to both the court of public opinion and the legalities of greenwashing.



Market Views

Businesses have become fearful and so perfect has become the enemy of good. Fear of doing the wrong thing in the court of public opinion is a primary motivator.

There is so much internal friction caused by the fear of greenwashing.

Progress requires risk taking but safety rules in the New Zealand business community regarding sustainability.

The law society recommendations have actually increased the hesitancy about making claims – so it will be hindering progress as there is fear of saying the wrong thing.

It is about being seen to do the right thing, as opposed to doing the right thing.

Yes, that fear has definitely led to green-hushing... we are not telling people about some of the transformational things that we are doing.

We are really afraid to talk about carbon offsetting, although we know that's absolutely going to be necessary [as part of the solution].



An absence of visible leadership is significant and a palpable difference versus more mature markets.

A lack of leadership was regularly mentioned as a barrier to driving sustainable transformation.

Similarly, the lack of visible case studies or examples of credible progress among any New Zealand organisations was mentioned – no one is seen as actually doing this, or at least not among the most high-profile influencer organisations.



Market Views

A lot of people are looking to others for leadership, but effectively there is no one. I would estimate that at the director level community in New Zealand probably 10% of people I work with believe strongly in this.

Some companies are doing good stuff but they're not the high-visibility leadership cohort.

Right now, it's all about push upwards from me. I am really surprised at the absence of questions and actions given directors' responsibility in this area.

Any decision making that is led by consumer demand will naturally come and go with the cost of living; however, these decisions are about values - what values do you have as an organisation?



Maximising shareholder value is still the dominant objective within businesses.

It is widely perceived that New Zealand businesses are failing to manage the challenge of balancing conflicting objectives, i.e. both shareholder value and sustainable transformation, with shareholder value coming first in nearly all situations.



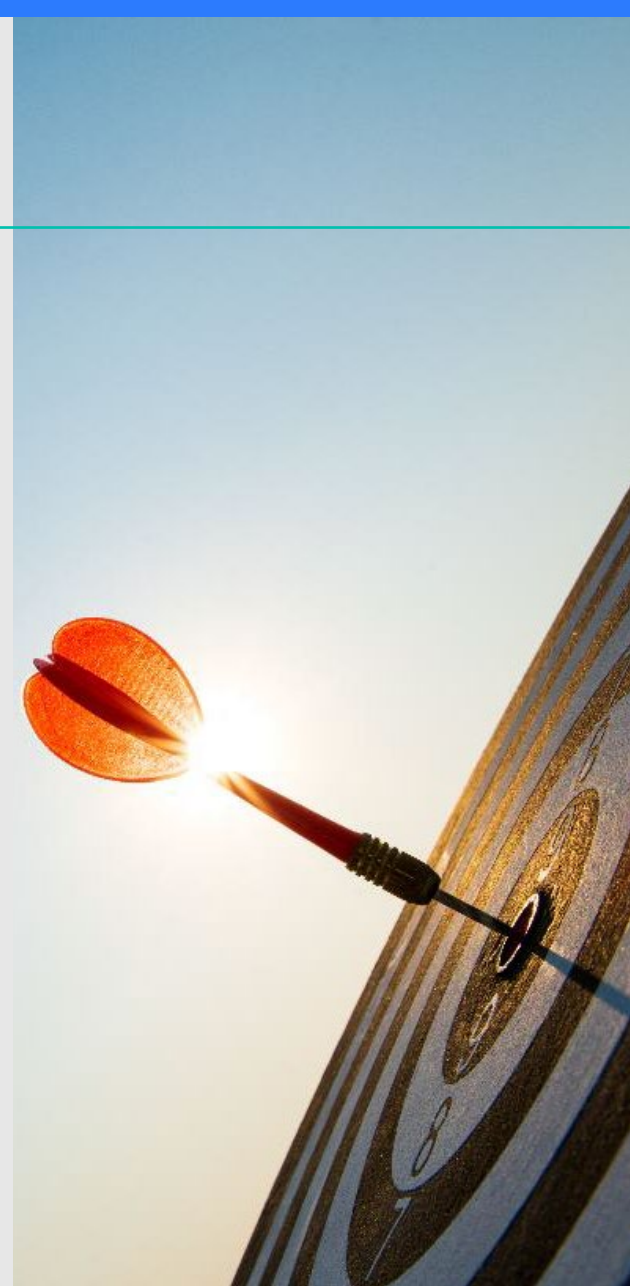
Market Views

Shareholder value still comes first, so the key differentiator between those businesses that are proving to be effective in something approaching transformation is simply: are they willing to invest the time and the money?

It's pretty simple - how to maximise profits and keep the lights on.

Shareholder return is still so dominant. Most directors in New Zealand are still swimming in traditional corporate culture and values.

I think a lot of people are individually passionate, but they leave themselves behind at work.



Similarly, a lingering focus on risk over business opportunities is also limiting the potential for change.

For transitional change to happen it requires a shift to be more about investment and business opportunities.



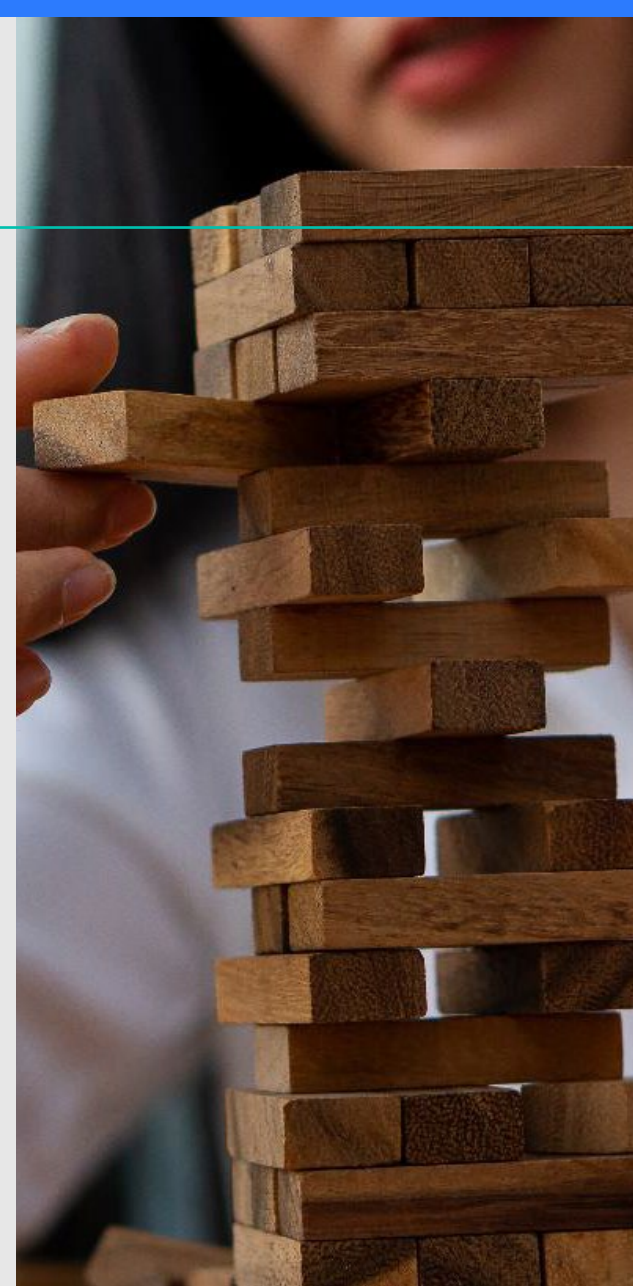
Market Views

Risk is a hard place to galvanise action.

The national narrative is around risk not opportunities. New Zealand businesses are overweighted by risk analysis frameworks.

We need to reframe the transition state to a low-emissions economy as an enormous business opportunity... with an upside, not just a threat with a downside.

So now you need to consult on transformation, which is opportunities plus risk. This is where you need to be at the table – to move from a sustainability-specific service to embedded across all of the parts that have to change.



The lack of an agreed vision or target means that there is little consensus regarding what transformation or change actually means.

Another impediment to progress is the variable nature of...

a. The nature of the target / goal, if there is one

b. The difference between change and transformation

c. What progress actually looks like

This tension between genuine transformation versus commercially pragmatic iterative change casts a constant tension across the interviews within this project.

This produces a scenario where there is no consistent 'north star' within the New Zealand business community regarding what good actually looks like, and the absence of any such unified vision directly contributes to piecemeal incremental progress.

"The primary impetus now is regulation and avoiding bad outcomes rather than a vision for good."

"We're not having hard and real conversations."

"Good consultants take complicated situations and help find a pathway. Real value is when they are able to give organisations confidence to move forward and present opportunities."

"It's about a mindset shift – having the right questions than the answers. Consultants need more futurists who are prepared to push a little more around the future operating environment."

The structure of roles within businesses can be hindering progress.

Roles are often still shared – even when elevated to a senior level – meaning a lack of relative focus and representation regarding sustainability.

Particularly, it means that sustainability workstreams can be easily crowded out by more pressing or immediate concerns.



The practitioner to governance connections are not there because there are not enough people with sustainability in their job title at the top level.



Importantly, however, after the initial, more dedicated focus on sustainability that is required to push the case for change, the second stage of enabling that change can see the benefit in hybrid roles / skillsets...

True transformation goes in stages. We know that there will be a charge from the EU for their ETS coming at us.

You don't need someone from the sustainability team telling the shipping team what they already know. You now need someone who understands both sustainability and shipping together.



03

The drivers and process of sustainable change



There are four broad drivers/triggers of change.



Consumer Expectations

There is a perception that there is a greater demand for sustainable products in other countries, with less focus on this in New Zealand. New Zealand consumer data would suggest that, while this isn't true, what we receive as consumers is often less developed.

Ongoing extreme weather and supply chain disruptions will drive a continuing mainstreaming of consumer activism regarding meaningful business action.



Customer Expectations

This drives many of our exporters to transform in order to meet the stated commitments of our overseas customers.



Corporate Values

It is this which was frequently mentioned as absent or variable at the governance level. In the presence of commercial pressures, it is understood that any commitment to a sustainable future will be values-based.



The need to survive

Regulation is a tailwind. The Taskforce on Nature-related Financial Disclosures (TNFD), Climate-related Disclosures (CRD), the External Reporting Board (XRB), etc. requirements all provide clear consulting, support and networking opportunities within clients. However, one of the key lessons from this project is that this is necessary, but not sufficient, in terms of genuine transformation.

In terms of best practice, a high-level transformation process can be identified, with the governance layer and the culture change preceding the specific service lines.

It has to start at the top.

The key elements are:

- a. A mandate for change
- b. An ambition / vision – of value creation as well as risk mitigation
- c. CEO, CFO and Board support.

Recreating Organisational Culture

Changing mindsets and practices to embrace the vision.

Implement...

...the workstreams and technical resources to support the vision

Remap capacities and capabilities against climate and sustainability goals

Focus on key enablers:

- a. Sustainable finance
- b. Updating the process of financial disclosure
- c. Providing the resources and skills across functions and chapters
- d. Using contribution models / remuneration to incentivise change.

04

The role and opportunity for consultancy support

Within this overall frustrated marketplace, the case for external support and consultancy remains strong.

Businesses – both at the board and staff level – recognise that they need more expertise and resourcing than they have in-house, such as:

- a. Research on specific topics and expertise, e.g. pieces of analysis around climate transition
- b. Facilitation to help co-design process with stakeholders of a strategy
- c. A sustainability coach – someone who brings “...an external perspective or who can coach on how to pitch to internal stakeholders. They think through how the conversation may play out and how to be prepared to answer the questions. But that skill is tricky to find.”
- d. Reporting, because “...even if it’s just a report, it still improves understanding.”
- e. An external voice that can adapt and change focus as you go along. “You evolve and learn what the value is, and so you need access to the partners that can add that value.”

However, there are questions regarding the scope and ambition of consultancy services that are seen.

The services as offered are seen as constrained to specific areas of expertise and, as such, do not talk to the broader and more pressing need for genuine cultural and process change within a business.



We need change at the level of the entire business. There is a quote I like which is people like to think that sustainability is an a la carte menu but it's not – it's degustation, you have to do everything. Boards in New Zealand are still a la carte.

The key to successful transformation is removing friction but everything I see is simply adding it, so any external consultant has to enable the removal of that friction at the board level but also at the sustainability manager level.

What consultants should be good at is taking people through change processes, and at its heart sustainable transformation is a change process so they should be really good at this.



Similarly, in a service category where the absence of meaningful business change is defining, then the lack of vision is clear.



Sustainability is a story of winning hearts and minds – not just to distract consumers with greenwash, but to take them on a journey when something inconveniences them, when it costs more... how do we take them along?

Is there a coalition of clients with similar frustrations and experiences that we could learn from? Although there are way too many forums and conferences and breakfasts already... so we need to be careful here I know.

It is clear that something needs to excite directors because right now everything is about reducing risk and not about capturing opportunity. We need to get beyond the tactical and the logical and the risk based. Can we meet directors who know how to make meaningful change?

And within this, storytelling is so important because emissions setting is just so cold. They are selling the ingredients but not the brownie and wonder why people aren't getting excited.

The difficulty is when you have technical people briefing the advisors – they return with it framed as a technical response rather than being pitched at the level of CEOs and Boards.

These challenges strongly suggest a pragmatic change in positioning for a sustainability consultancy.

Consultant as enabler

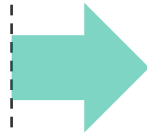
Resourcing and supporting the client's objectives and workstreams.

Consultant as challenger

An agent provocateur that takes the opportunities to introduce and guide the more ambitious conversations around both value creation and risk mitigation leading on from specific projects.

Consultant as transformer

Driving the frontier of business process and culture transformation.



A challenger / provocateur positioning by its nature takes existing discrete service offerings as springboards for broader transformation conversations. However, there is still the potential to strengthen specific service offerings.



Use CRFD as a springboard for change – not as an end in itself.

New Zealand needs a green financing vision – New Zealand hasn't woken up to the benefits to opening up to green capital yet – there's no strategy for attracting green investment.

In reality we can't fund our transition through government funding. We have to attract international investment and we don't have a plan for doing this.



For example, in the voluntary carbon market. They could take an interest in this market to provide credible certification. Nobody is policing it in a way that brings you confidence that you have bought a credit – does it comply with the UN version of additionality, permanence, measurability and enforceability?



05

Summary findings



Summary findings

- When considering their progress strategically, businesses view sustainability opportunities and challenges through the lens of broader business transformation, as opposed to the individual service lines underneath that. This is because the current level and nature of change is widely perceived to be insufficient to either meet those challenges or capture those opportunities.
- The responsibility for driving sustainable change is increasingly top-down but not to the degree that directors can be seen as the only target. However, the chairperson is increasingly important as the values-champion for such transitions, so specific offers and conversations targeted to that role need to exist.
- Progress is universally perceived as slow or insufficient and each of the major barriers hindering progress presents an opportunity.



Summary findings (continued):

- In the presence of commercial pressures, it is understood that any commitment to a sustainable future will be values-based. Any opportunity to champion and support a values-based change should be taken – including, if possible, consultancy services.
- There is demand for a broader vision and organisation-wide change management skills to drive change that is meaningful – not piecemeal.
- Strongly related to the requirements for vision, values and organisational change is the adjacent skillset of storytelling. An overemphasis of risk-mitigation and technical expertise has dulled consultancies' ability to tell the story, or indeed to offer any consultancy in this crucial area.
- Expertise and impact are the primary drivers of consultant preference.



If you'd like to discuss the sustainability landscape or the needs of your organisation, please get in touch with our KPMG IMPACT team:



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