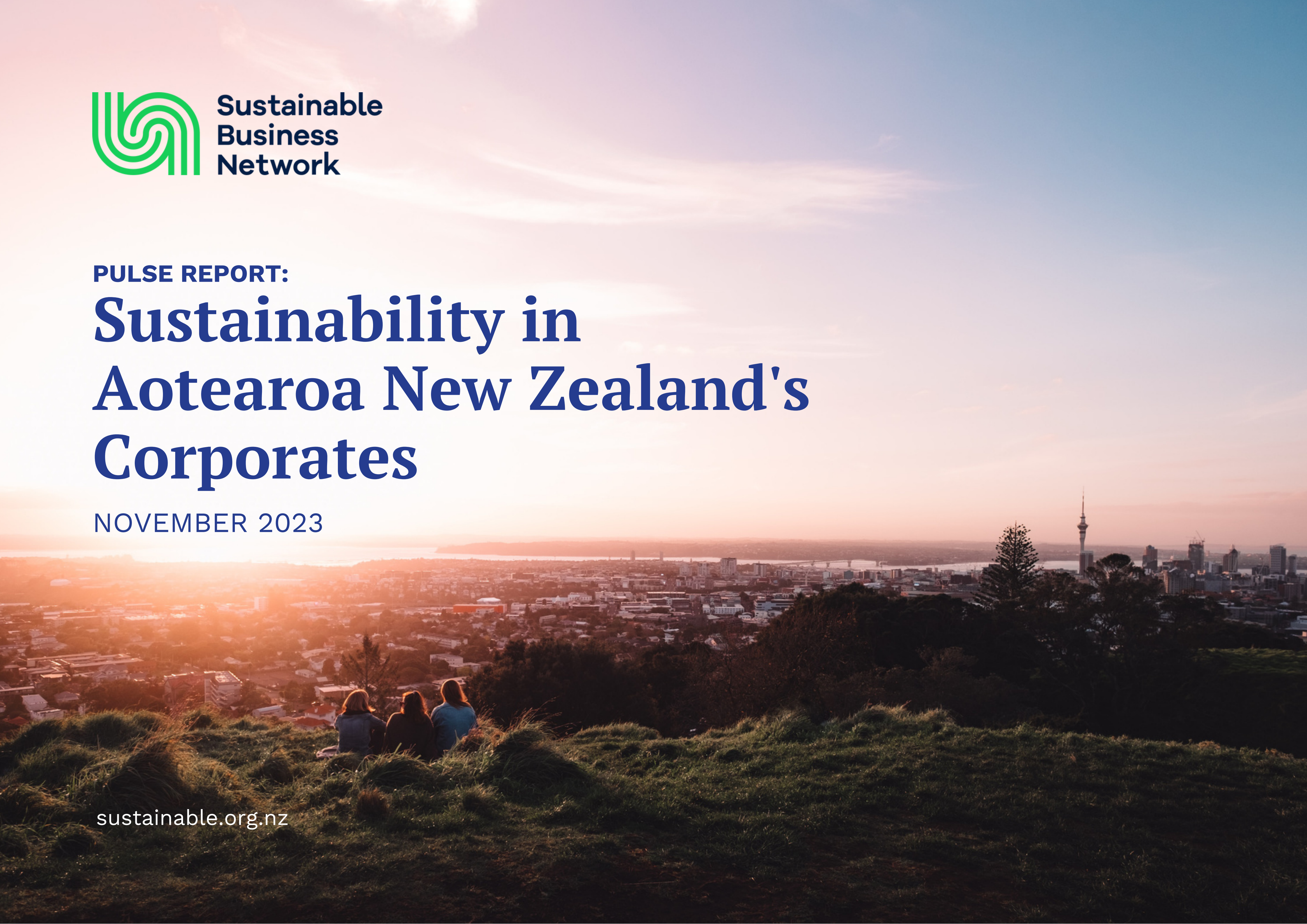


Sustainable Business Network

PULSE REPORT:

Sustainability in Aotearoa New Zealand's Corporates

NOVEMBER 2023

sustainable.org.nz

Executive Summary

This report examines the prioritisation of sustainability by Aotearoa New Zealand corporates.[1] It is based on the insights gathered from almost 30 interviews with senior executives.[2] The businesses interviewed were all members of the Sustainable Business Network (SBN). They come from a number of sectors, including (but not limited to) primary industry, financial services, transport, manufacturing and construction.

[1] The organisations we met with had annual turnover greater than $50,000,000.
[2] We met with a range of senior representatives, from sustainability leads to Chief Executive Officers.

The report looks at several key areas. They include overall business confidence, drivers, key focus areas and challenges. The interviews showed a diverse range of approaches and attitudes towards sustainability. These reflect the unique challenges and opportunities faced by each organisation. Most organisations expressed optimism about the future, even amid concerns about the economy and rising living costs. Market conditions and increasing regulation were identified as the primary drivers behind sustainability initiatives.

Key themes were:

- emissions reduction
- circular economy practices
- employee and supply chain engagement

There were a number of shared challenges, including global supply chain disruptions, regulatory ambiguity, insurance hurdles, the cost of transition and the need for behavioural change, internally and among customers and suppliers. There was also a growing concern about greenwashing and its potential impact on brand reputation.

Businesses noted the need for partisan support around Aotearoa New Zealand's climate goals, commitment and investment. Many spoke of the significant investment they had made or were making to achieve emissions reduction, in line with regulation and strong international market signals.

A number of possible government interventions to support sustainability efforts were mentioned.

These included:

- regulatory clarity
- financial incentives
- adaptation assistance
- continued public-private partnerships

In general, sustainability was a key strategic focus for almost all of the organisations we spoke with. It has retained or even increased its importance, during a turbulent period.

> **“Ground being gained - might not be fast enough but progress for sure.”**
>
> Interviewee

Report Findings

Business confidence

In general, business confidence was positive over the long term, with recognition of short-term challenges. No business we spoke to was planning to reduce staffing, though some were not replacing employees as they left. Budgets were generally being managed more stringently, with expectation that pay increases would be more moderate, in contrast to the last couple of years, and bonuses lighter (if given).

Overall, most interviewees expressed optimism about the future, despite challenges around the economy and the rising cost of living. Market conditions, such as escalating costs and supply chain instability, continued to disrupt. However, despite these uncertainties, most organisations remained committed to sustainability goals and were projecting growth.

Key drivers

The top two drivers we identified for sustainable action were market pressure and regulation. Market drivers came up multiple times. They were particularly apparent in businesses with a large export arm. A number of the businesses we spoke with were also required to report under the new Climate-related Disclosures (CRD). Complying with this new regulation was a key focus for their organisation.

The main drivers were:

Market demand

Increasing customer expectations and market access requirements are pushing organisations to align their operations with sustainability goals. Pressures on Scope 3 reporting was leading to increased scrutiny in supply chains. Sustainability criteria were becoming more normalised in bids. Those organisations exporting to Europe were seeing strong pressure to prioritise action in emissions reduction. Some organisations spoke of increased customer expectations for sustainable products and services and saw sustainability as a competitive advantage.

Investor pressure

Investors are increasingly wanting Environmental, Social and Governance (ESG) data. This is pushing greater transparency around risks posed by and to companies with regards to climate change.

Regulatory forces

The new Climate-related Disclosures (CRD) requirements were a key driver of sustainability for many organisations, even those that were already voluntarily reporting to the Taskforce on Climate-related Financial Disclosures (TCFD). There was a mix of organisations tackling this with a compliance lens, as well as those using it to better inform strategy and long-term planning. In additional to local regulation, exporters were acutely aware of the signals from Europe and the UK market in particular, with new regulations such as the Carbon Border Adjustment Mechanism.

Board engagement

A number of interviewees spoke of increased focus and pressure from the board room. A handful had established sustainability sub-committees or advisory boards. Others noted increased attention and training occurring at the board level, particularly in those organisations subject to increased board scrutiny in line with climate reporting.

Additional drivers

Other factors influencing organisations to address sustainability included:

Employees

A smaller number of organisations mentioned staff as a motivator, particularly those looking to attract younger talent. The organisations stated an increase in observed desire to work for purpose driven companies.

Ethical leadership

A number of the respondents were personally motivated to act responsibly: “For me it’s pretty simple. It’s just the right thing to do”.

Sustainability as success

Sustainability was seen as important for long term commercial success. A couple of organisations were increasing their strategic timelines in a shift towards longer term thinking.

> **“For me it’s pretty simple. It’s just the right thing to do.”**
>
> Interviewee

Key focus areas

A range of themes emerged during the interviews. On the whole, organisations were taking a holistic lens around their sustainability strategy, looking across social, environmental and governance areas. Those organisations reporting under the CRD were getting increasing scrutiny from their boards.

Every corporate interviewed was focused on emissions reduction. Most had clear targets in place. However, many lacked credible plans to meet them. We are sceptical that business is on track to achieve reductions of 40-50% by 2030 (in line with keeping warming below 1.5 degrees) and net zero by 2050.

The main focus areas organisations identified were:

Climate action

Climate change mitigation and adaptation efforts were prevalent across organisations. Goals included reducing carbon emissions, transitioning to renewable energy sources, and addressing climate-related risks.

Circular economy

Embracing circular economy principles, such as waste reduction and recycling, was a priority for many. Some more progressive organisations sought to reimagine supply chains and product life cycles to minimise waste. Circular economy for many organisations, however, focused on recycling (the most basic interaction). Very few were questioning business models and practices.

Water management

Water conservation and responsible use featured prominently where it was a material issue. For some organisations use of water was closely linked with overall nature focus.

Supply chain sustainability

Ensuring sustainable supply chains was a common focus. This was driven by regulation (as outlined above) and the need to meet customer expectations and respond to market signals. Collaborating with suppliers to achieve sustainability goals was a common strategy. Some organisations encountered resistance or limited collaboration among suppliers, highlighting the need to improve cooperation within the supply chain. Organisations sought partners that shared their sustainability values and goals.

Employee engagement

Many businesses recognised the importance of staff engagement and a few had established key performance indicators (KPIs) linked to greenhouse gas emissions and other sustainability metrics.

Indigenous partnerships

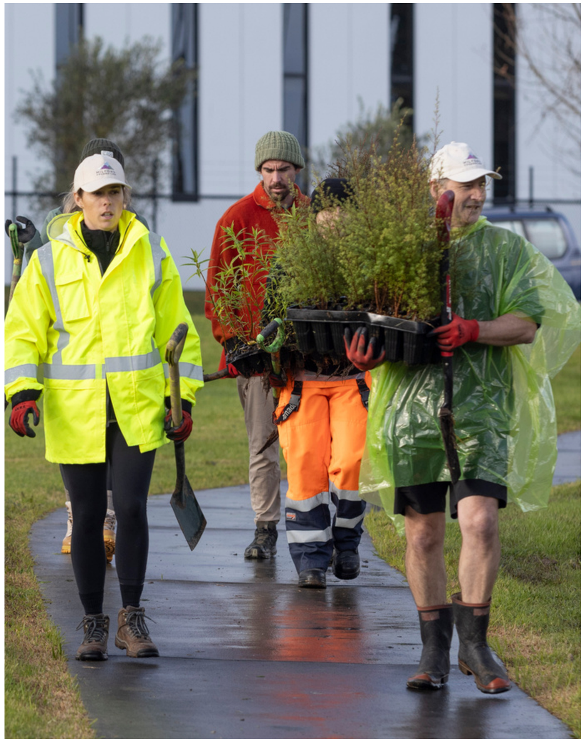
Acknowledging the significance of indigenous perspectives and partnering with Māori communities featured in multiple sustainability strategies, although many spoke of being early in their journey. It was most common to see a focus on upskilling staff as a first step.

Emerging focus

The wider framing of a business' impact on nature and nature's impact back on the business was on the mind of many interviewees.
Nature was often mentioned with the Task Force on Nature-related Financial Disclosures (TNFD) noted as an area some were starting to grapple with.

A handful of organisations were undertaking research and development on biodiversity and better stewardship of natural resources. These businesses were testing what 'nature positive' meant in reality.

While secondary in focus to emissions reduction, corporates believe better articulating and addressing their impact on nature will be needed in the near future. There was uncertainty around how to do this well, however. Guidance on how the CRD sits alongside the upcoming TNFD recommendations would be very useful for those reporting (and beyond).



Key challenges

Several challenges were identified by the interviewees. Due to the diverse nature of the industries and the maturity of sustainability within their organisation these varied substantially. The most notable are included below.

Supply chain disruptions

Global supply chain disruptions, including material shortages, shipping delays and increased costs, were a significant challenge affecting operations and sustainability efforts. Extreme weather events were exacerbating these issues for some organisations and disrupting their services (such as transportation).

Supply chain management

Aotearoa New Zealand's geographical location meant options were often limited around sourcing of material. We are not large enough to influence the international supply chain. It is also highly resource intensive to develop the relationships from a sustainability standpoint and gather the necessary data for Scope 3 reporting.

Regulatory uncertainty

Interviewees expressed frustration over regulatory ambiguity and the need for clearer and more consistent sustainability regulations. Two mechanisms mentioned were the Emissions Trading Scheme overhaul and the continued delays over He Waka Eke Noa.

Cost of regulation

The new CDR regulations required significant financial and staff investment for impacted organisations. This shifted some funds away, in the short term, from taking action.

Insurance hurdles

Some businesses faced difficulties obtaining insurance, especially related to climate risks and infrastructure. This challenge impacted their ability to mitigate risks.

Cost of transition

Significant investment has been made in data capture systems and upskilling. More is required for some decarbonisation projects and research and development, where technical solutions are not yet readily available or affordable (such as in aviation and farming). The Fringe Benefit Tax was mentioned by a few as a hurdle in transitioning their fleet to electric as it significantly increased the cost and infrastructure required.

Behavioural change

Shifting behaviour, both internally and among customers, consumers and suppliers, is challenging. A number of organisations noted that a behaviour shift is required to bring about change, but they were often uncertain what they could, or should, do to influence this.

Greenwashing

A number of organisations were cautious around what they state publicly due to increasing concern around being called out for greenwashing. Signals from the Commerce Commission have heightened this concern. There are increasing examples of businesses being fined for greenwashing internationally, where regulation is further advanced than in this country. Concern over damage to brand rather than legal action was a key driver in paying close attention to the claims that businesses make.

Interventions required

Businesses identified specific interventions from the government that would support their sustainability efforts.

Regulatory clarity

Businesses called for clearer and more consistent regulations that would facilitate planning and compliance. He Waka Eke Noa and the Emissions Trading Scheme were mentioned as two examples that created continued ambiguity.

Standardisation

Organisations sought harmonised regulations between Aotearoa New Zealand and the global market, particularly in areas of climate and nature reporting.

Financial incentives

Support in the form of grants or incentives for sustainability initiatives, such as transitioning to renewable energy or electrifying vehicle fleets, was deemed helpful. The Energy Efficiency and Conservation Authority (EECA) was mentioned as being a strong enabler of decarbonisation action for organisations that had received funding.

Adaptation assistance

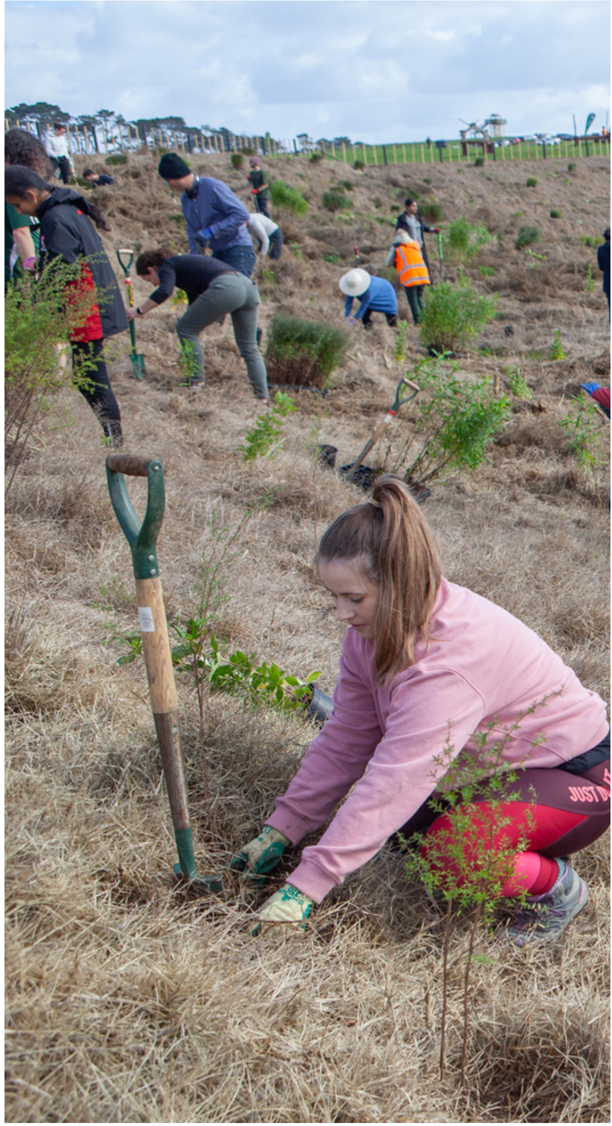
Support for adapting to climate-related challenges and supply chain disruptions was seen as necessary for long-term sustainability planning.

Leadership

In the run up to the election businesses noted they were sceptical of the Government's ongoing commitment to climate, and the lack of urgency or prioritisation in party policies. Businesses have invested heavily in meeting climate targets and signals to reduce the impact from the Climate Change Commission and funding from the Emissions Trading Scheme. There was a growing desire to de-politicise action in this space.

Climate change is the "biggest market failure in the history of the world".

Interviewee



Conclusion

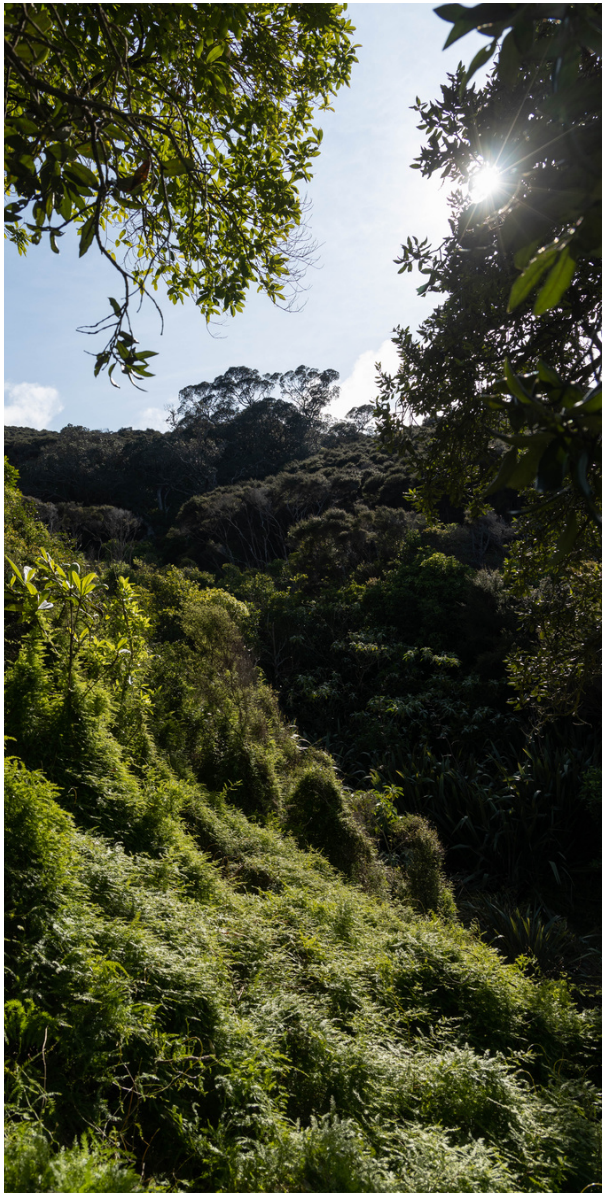
The corporates interviewed confirmed their ongoing focus on sustainability over the next 18 months. Some were reviewing targets, others were improving their reporting. Many were investigating their supply chain and going beyond their immediate operations. There were clear drivers of sustainability action outside of regulation. But it was noted that the pace and ambition of the change is likely to be impacted by signals and investment from government.

Businesses are investing in taking climate action in line with growing international and domestic pressure. Overall, momentum is growing. There is an increasing focus from the board room. Collaborative efforts with staff and suppliers were noted as critical for success. Many businesses had plans in place for engaging both.

Sustainability was more than emissions reduction for all of the organisations interviewed, though climate action was a key focus. Organisations were investigating how to move towards circularity, learn from Te Ao Māori and be better stewards of our natural world.

However, sustainability remains one factor among many and secondary to profitability. Few organisations are challenging how their business operates and if they are truly sustainable by design. Few are applying future consumer trends and preferences. Some are relying on technology that does not yet exist for meeting their net zero commitments. Continued incentives are needed to ramp up the investment and activity required for Aotearoa New Zealand to meet its global commitments.

Momentum is happening, but not at the pace or scale many would like.



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