

2023 Net Zero Report

Six Actions to Accelerate Decarbonization

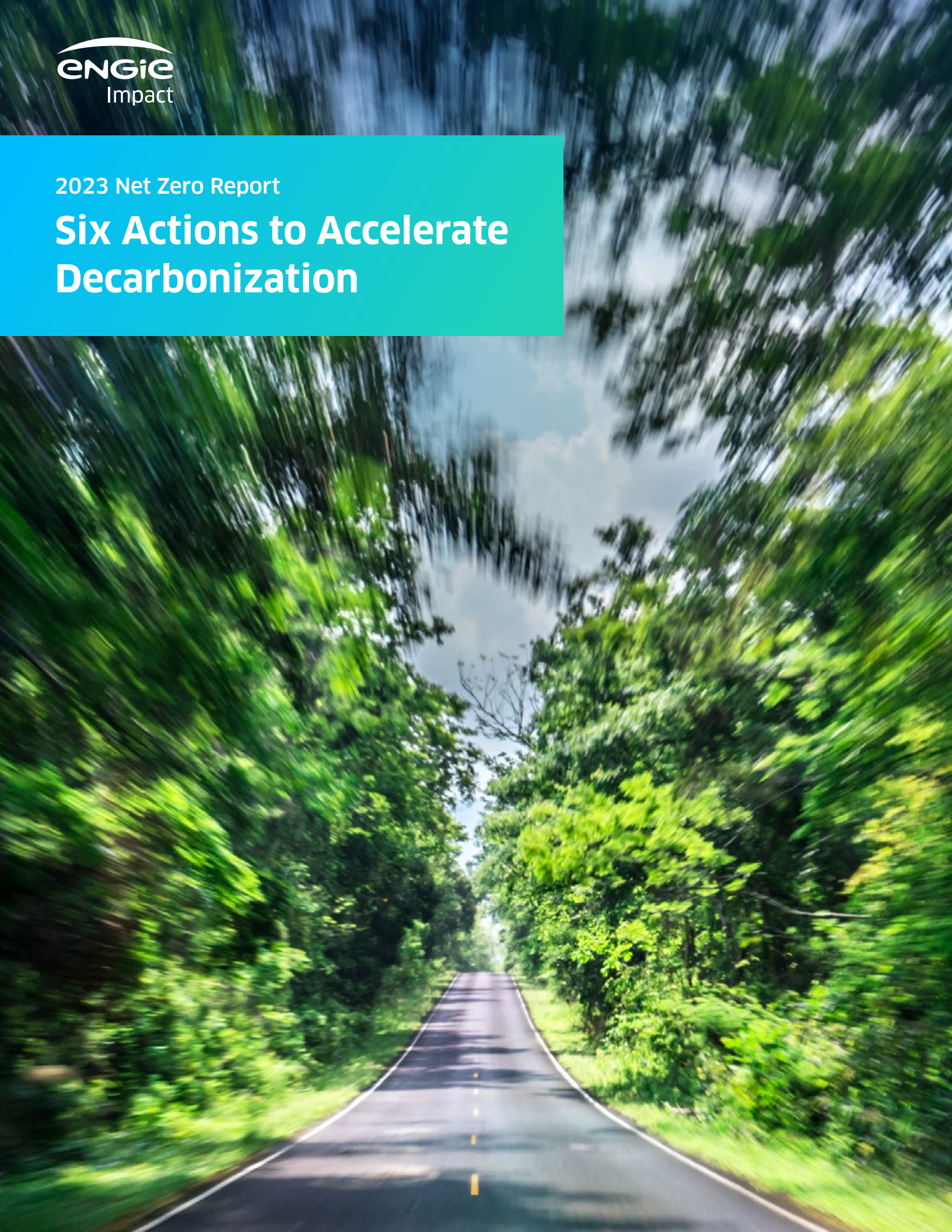


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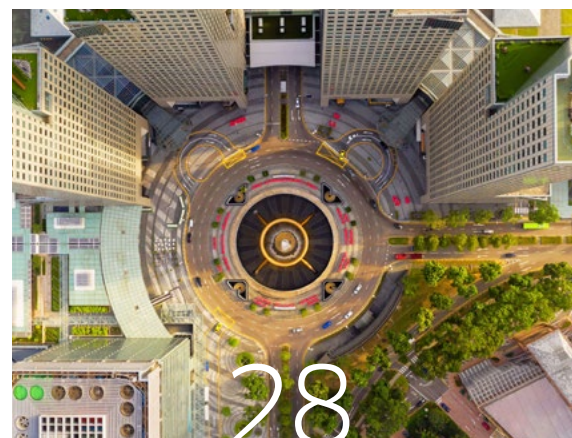
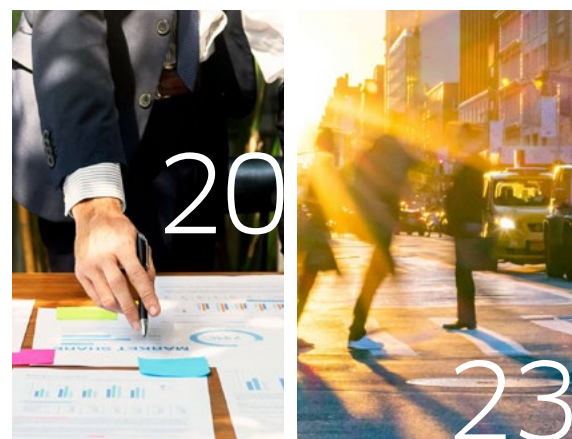
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About ENGIE Impact's Research



Executive Summary: Overcoming Decarbonization Barriers

Having a corporate decarbonization goal has become common.

62%

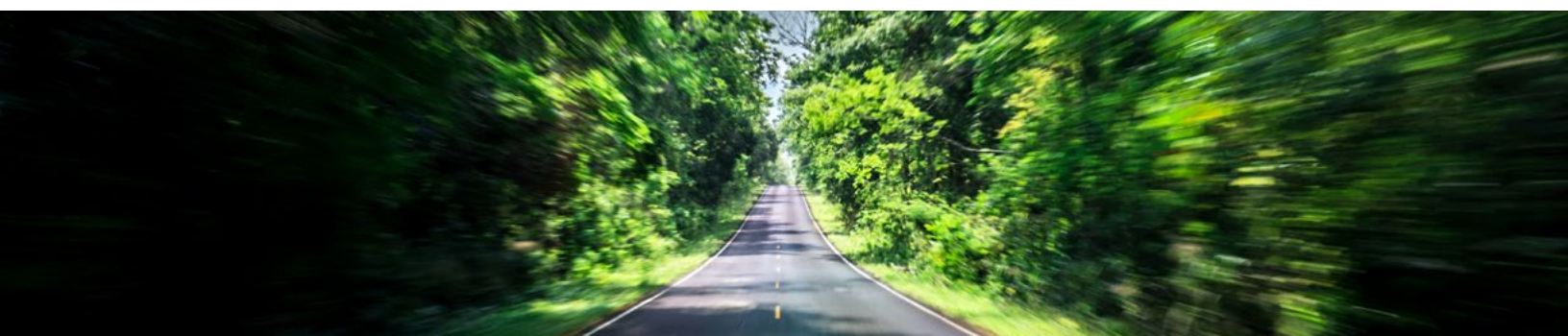
Nearly two-thirds of the organizations in ENGIE Impact's research say they have now **made some form of public commitment** or target **to address carbon emissions reduction** within their organization.

Making a public decarbonization commitment is an important first step. Yet it is only that: a first step. Corporate decision-makers increasingly recognize that to achieve their ambitious decarbonization targets takes sustained effort, investment, and strong leadership. For some organizations, decarbonization may even require a multi-decade approach.

For most organizations today, **the biggest barrier to effective decarbonization** is not a lack of organizational will. Instead, the biggest barriers center on the very practical implementation activities and decisions required to achieve meaningful decarbonization: **budget allocation, organization structure, and supply chain issues**.

ENGIE Impact has commissioned independent research among 505 senior corporate decision-makers, each of whom have responsibility for making or influencing decisions regarding decarbonization strategy and/or implementation within their organization. All respondents are from organizations that employ more than 10,000 people globally, and the 505 research respondents represent a range of industry sectors. Full details around the survey methodology can be found at the end of this report.

Making a **public decarbonization commitment** is an important first step – but is only a first step, not a standalone goal.





The difficult realities of decarbonization

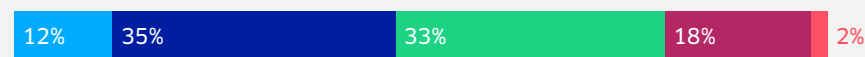
Our research shows these implementation barriers, as well as a potential **disconnect between the expectations of executive decision-makers and operational leaders**, typically present the biggest areas of resistance. Addressing these implementation challenges now is the central mission for the majority of respondents in our research.

This helps to explain why – despite a large majority of organizations saying they have put in place a decarbonization commitment – more than half (53%) describe their progress in executing their current sustainability program as either ‘moderately successful’, ‘slightly successful’ or ‘not at all successful’ (see Figure 1).

12% believe they **are on track to meet or exceed** their ambitious decarbonization goals.

Figure 1

How successful has your organization been in executing your current sustainability program?



- Extremely successful:** We are meeting or exceeding our ambitious goals
- Considerably successful:** We are seeing good results, but there is room for improvement
- Moderately successful:** We are seeing some mixed results
- Slightly successful:** We have only begun to execute the sustainability plans we made
- Not at all successful:** We have failed to execute the sustainability plans we made

Tracking year-on-year sentiment reveals that progress is incremental. When we asked organizations in 2021 to rate their level of success, 46% rated themselves as 'considerably successful' or 'extremely successful'. This was up from 29% in 2020, but essentially unchanged compared to the level recorded in 2022 (see Figure 2).

Figure 2

How successful has your organization been in executing your current sustainability program?



This suggests organizations may feel they have exhausted many of the easy fixes around carbon reduction and are starting to be confronted with more challenging barriers to implementation and execution.

75% of respondents say they **have achieved most of the 'quick wins' in their decarbonization plan** and have now switched focus to tackle the harder-to-address challenges. Challenging work lies ahead.



As organizations switch focus to more difficult decarbonization challenges, they anticipate encountering a wide range of barriers.

These include lack of government incentives, the short-term mindset of the corporate investment cycle, a war for decarbonization talent within their industry, and a lack of internal, cross-functional collaboration on decarbonization projects. Figure 3 outlines the full range of challenges reported as either 'somewhat a barrier' or a 'major barrier' today.

Figure 3

How significant are the following barriers for your organization?



Six Actions to Achieve Greater Impact

The collective experience of the 505 organizational leaders in our survey generates six significant insights executives can draw on to accelerate decarbonization impact within their organization. These six insights are:



1. Maintain Long-Term Focus and Belief

Organizations should double-down on their decarbonization resource allocation now and **turn short-term volatility into long-term competitive advantage**. Strong leadership can disrupt the cycle of short-termism when measuring ROI on decarbonization investment. Cutting decarbonization funding when the momentum for change is building is a mistake.



2. Establish Governance and Accountability

While there is no single correct approach to building decarbonization capabilities, our survey shows many organizations **empowering local or functional decision-makers to embrace decarbonization solutions**. Every organization should establish a model that will deliver maximum return on decarbonization investments.



3. Close the Implementation Expectation Gap

There is a misalignment between the expectations of senior executives and those responsible for implementing decarbonization initiatives, threatening to derail future progress. **Successful organizations have realigned their executive vision with their operational know-how** to unlock their decarbonization firepower.



4. Increase Executive Accountability

Empty corporate promises and limited follow-through increases the risk of greenwashing accusations. **It is vital for executives to be held accountable for the success of their organization's decarbonization activities**, treating carbon reduction commitments as seriously as financial targets.



5. Activate the Right Decarbonization Enablers

Executives need to make sure they are using all the tools at their disposal to accelerate decarbonization impact. Our research reveals three enablers will become increasingly important between now and 2025: **innovative finance models, carbon pricing, and investing in decarbonization data maturity**.



6. Collaborate with Supply Chains

Successful decarbonization leaders recognize they cannot achieve long-term carbon reduction on their own. Implementing **shared incentives and joint interest initiatives by partnering closely with supply chain organizations is a necessary step** for addressing Scope 3 carbon emissions.



Action 1: Maintain Long-Term Focus and Belief

Double-down on decarbonization resource allocation in the short-term to deliver long-term competitive advantage.

At a time when the prices of energy and raw materials are rising rapidly and corporate budgets are tightening, it can be tempting for executives to focus on short-term goals at the expense of longer-term priorities. This is particularly true of decarbonization, which for most organizations represents a multi-decade commitment.

One sustainability leader at a Mexican technology company in our research summarizes the challenge well:

“ The economic instability derived from the COVID-19 pandemic, the result of the Russian invasion of Ukraine and global inflation are factors that have affected the percentage of investment allocated to sustainability. We try to stick to limited budgets.

The need to generate short-term pay-off from decarbonization investments is cited as a significant obstacle to change by the executives in our research.

73% describe the **pressure to deliver short-term return on investment** as either ‘a major barrier’ or ‘somewhat a barrier’ for their organization.

Lessons from Corporate Decision-Makers

“To implement decarbonization policies **it takes a great commitment from the company and all its collaborators**, and it is also necessary to find the financial resources to carry out these projects. Great skill and experience are required to find reliable partners who believe in this project with employees that are capable and adequately trained.”
– Manufacturing company, Italy

“The most important thing is to persuade the board of directors not to be short-sighted and focus on short-term interests, but to **focus on the medium and long-term goals for the next five, ten or even fifteen years.**”
– Manufacturing company, China



Superior sustainability capabilities drives competitive advantage

Decision-makers need to look beyond the short-term volatility in energy and financial markets by focusing on how continued investment in decarbonization will drive long-term competitive advantage.

69% A majority of organizations in our research believe that **having superior sustainability capabilities will drive their competitive advantage** either ‘to a considerable extent’ or ‘to a large extent’.

To unlock this competitive advantage, organizations need to make sure their decarbonization commitments – their net zero goals and their carbon reduction roadmap – are complementary to their wider corporate aspirations. Decarbonization activity needs to work with, not fight against, corporate strategy. It is encouraging, therefore, that ENGIE Impact’s research shows over eight in ten (**83%**) organizations **believe their decarbonization ambition is both consistent with, and complementary to, their corporate business strategy**.

There are similar levels of belief across all geographic regions and the major industry sector groupings covered by our research. This suggests that a majority of the largest global corporates recognize decarbonization can be a value-creating activity for their business, and not just a regulatory burden or an unwelcome cost of doing business.

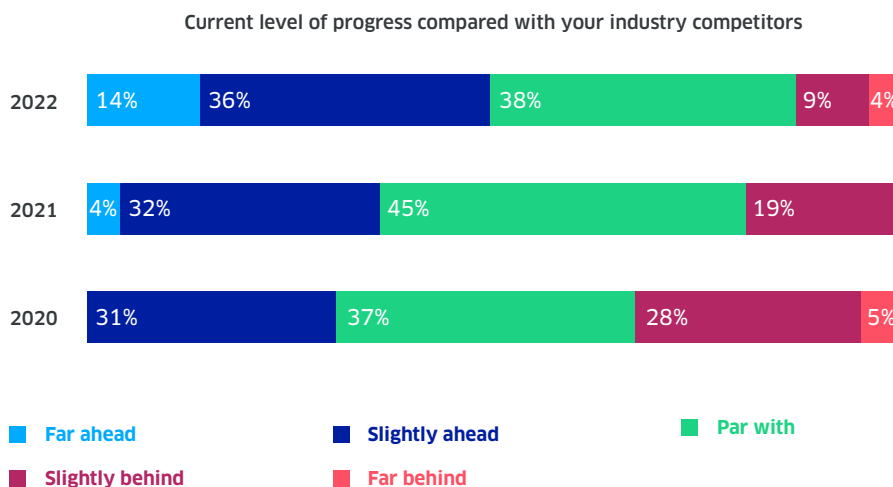


Confidence growing over time

ENGIE Impact’s research suggests that **organizations today feel in a stronger position with regards to their decarbonization progress relative to industry competitors than they did just two years ago**. In our 2020 research, less than a third (31%) of organizations believed themselves to be either ‘far ahead’ or ‘slightly ahead’ of competitors. That number has increased year-on-year to 36% in 2021 and is now 50% in 2022 (see Figure 4).

Figure 4

How do you assess your organization's current level of progress compared with your industry competitors?



Invest the necessary time and money

Executives need to ensure carbon reduction initiatives are being adequately funded. Without sustained funding commitments, organizations risk halting the momentum around decarbonization built up over the last few years. As one Brazilian technology company in our research identifies:

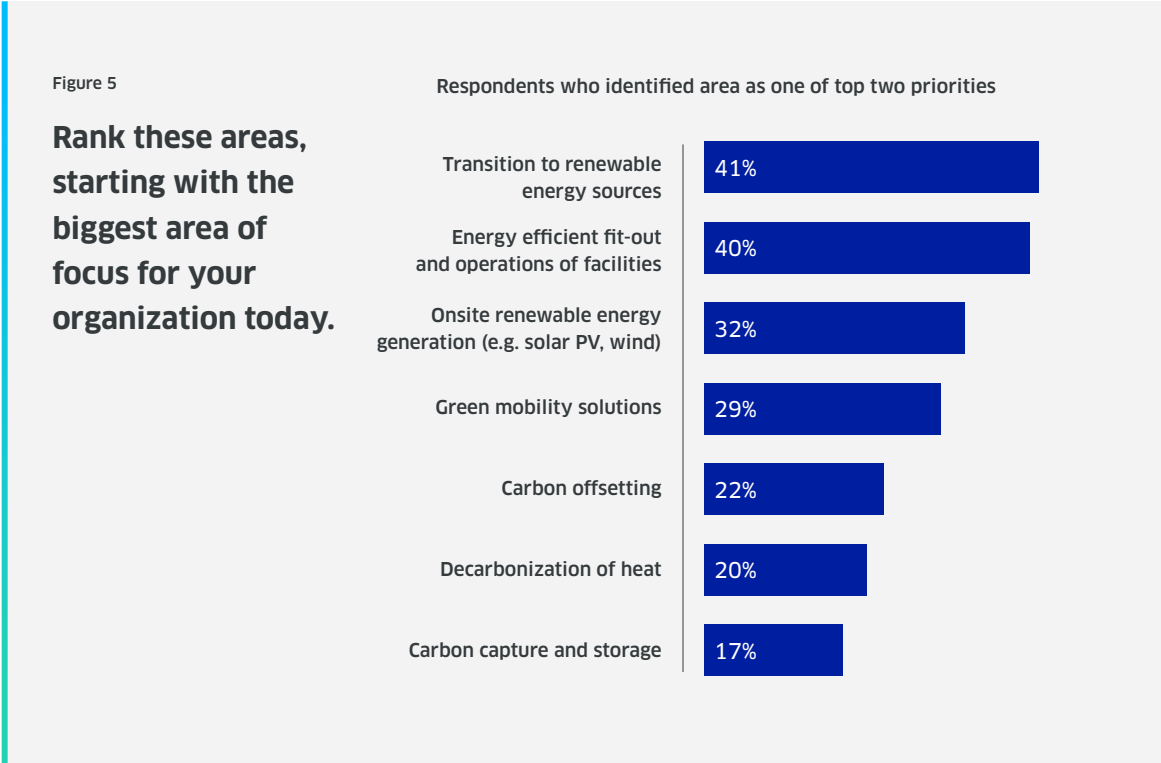
“ The high cost of renewable infrastructure and the transition time between energy sources has slowed down our progress.

Organizations must balance investment between the short-term 'quick wins' that will have immediate payback (both in financial and carbon reduction terms) and longer-term or transformative initiatives that may carry more risk but also represent an opportunity to significantly accelerate decarbonization.



Investment priorities center on renewables and energy efficiency

Our research shows organizations today are focusing their resources on energy efficiency. Figure 5 illustrates that two main priorities emerge: **transitioning to renewable energy sources (41% rank this among their top two decarbonization priorities)** and **energy efficient fit-out and operation of facilities (cited by 40%)**. These two priorities top the list across all geographic regions covered by our survey.



These results suggest that at present, **organizations typically prefer to invest in well-trodden approaches to reduce carbon** such as procuring clean energy, generating their own clean energy onsite, and redesigning or reconfiguring their facilities, buildings, or processes to improve energy efficiency.

Fewer organizations today are choosing to allocate the greater part of their decarbonization budget into more transformative initiatives such as **carbon capture and storage** (only **17%** place it among their top two priorities) or on **technologies that will reduce the carbon generated through heating systems** (cited by **20%**).

Even when we asked survey respondents to anticipate their budget allocation for 2025, we see little change in overall spending priorities. Investment in **onsite renewable energy generation** edges slightly ahead to become the leading priority at **37%**, up from 32% today. The proportion of respondents prioritizing **carbon capture and storage** increases from 17% today to **22%** in 2025.

These relatively small movements suggest there is scope for executives to be much bolder in their decarbonization investments in the short-term to medium-term.

The ENGIE Impact View

De-risking Corporate Decarbonization Strategies



Pablo Morales

Managing Director, Sustainability Solutions – LATAM, ENGIE Impact

Across the LATAM region we are seeing a growing number of organizations focusing on decarbonization implementation. They have already set a strategy and set clear goals. They know in general what they need to do, but they struggle to understand how to implement the changes.

One of the biggest risks facing these organizations is that they underestimate the effort, the timeline, the complexity, and investment required to deliver on their decarbonization commitments.

Many executives haven't considered the risk of failure as part of their decarbonization strategy. They often don't understand they need a dedicated team to deliver successful execution.

We encourage our clients to understand the different likely scenarios that will occur throughout the various stages of their decarbonization plan. Not only what is the best- and worse-case scenario, but what is the most likely scenario and what levers can they bring into play to increase the positive outcomes in the most likely scenario.

With a clearer understanding of the likely scenarios, executives will be better empowered to educate colleagues in their organization about the choices open to them that will de-risk the implementation of their decarbonization strategy.



Action 2: Establish Governance and Accountability

Have the right organization model in place to embrace high-impact decarbonization solutions.

For organizations seeking to accelerate their decarbonization journey, it can be difficult to know what the optimum organizational structure is to deliver the most effective and efficient carbon reduction outcomes. **Is it better to pool resources into a centralized center of excellence model or to devolve implementation to local or functional teams who can employ their own decarbonization specialists?**

Both ENGIE Impact's research, and our experience with clients, reveals **there is no single approach** favored by a majority of organizations today.

However, it is imperative that organizations consider the benefits and drawbacks of each model to opt for an approach that will deliver maximum return on decarbonization investment and minimum friction to their existing operational teams. If organizations don't address this question early in their sustainability journey, it can lead to tension between strategy and execution, which in turn results in stasis. As one French retail company in our research neatly summarizes:

“The company's inertia in terms of sustainability is in conflict with the rapid realization of the solutions envisaged.”

Lessons from Corporate Decision-Makers

“Have a clear strategy with achievable goals. **Don't try and get to net zero in an unrealistic timeframe.** Work across the business to prioritize quick wins to gain momentum and get employee buy-in.”
– Pharmaceuticals company, U.K.

“Identify low-hanging fruit and immediate actions. Accept uncertainty. Determine what can be done in-house and where external partners are necessary. Read and understand the regulatory landscape. Embrace digitization. Identify the commercially ready and emerging technologies available over the next 30 years that could be deployed. **Prioritize technologies based on cost, risk, availability and opportunity to scale. Build adaptability into the plan. Communicate.**”
– Technology company, U.S.



From centralized to localized

Four in ten organizations (**42%**) have opted for a centralized approach to developing their decarbonization capabilities (see Figure 6).

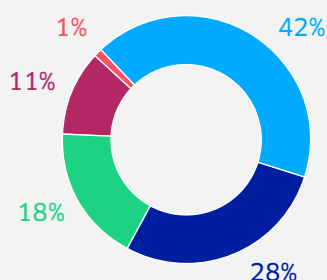
Having a global center of excellence or centralized business unit responsible for coordinating decarbonization initiatives and investments across the global organization can create efficiencies through facilitating the sharing of best practices and expertise. It can also add complexity when engaging with on-the-ground teams, each of whom may have their own carbon-reduction priorities or projects.

Many organizations start with a centralized model, providing clarity to organizational priorities and oversight to capability investment. As they mature, many move toward a more delegated model with resources and expertise more closely aligned to business units, functional areas or geographies.

Today, **18% of organizations say they align their decarbonization capabilities geographically**, with country or regional leaders responsible for coordinating and driving execution. More than a quarter (**28%**) have functional leaders be accountable for driving action within their specific areas of the business. Both approaches typically result in more direct control over implementation activity and budget allocation at a local level, but can lead to inefficiencies if there are limited mechanisms for cross-functional collaboration.

Figure 6

Which of the following best describes how your organization executes its decarbonization initiatives?



- **Centralized:** We have a global, centralized sustainability team that coordinates and drive execution across the organization.
- **Local:** Local country or regional leaders are responsible for coordination and driving execution.
- **Functional:** Functional leaders are responsible for coordinating and driving execution within the areas of the organization for which they are accountable.
- **Facility or site level:** Responsibility for coordinating and driving execution sits with those who lead key sites or facilities (e.g. factories, warehouses, extraction sites).
- **None of the above**

11% Just one in ten of the respondents to our survey align their decarbonization capabilities at a facility or site level.

Within this model, heads of particular sites – such as factories, warehouses, or extraction sites – are responsible for coordinating decarbonization execution within their own domain.

In practice this model can lead to much a quicker adoption of new decarbonization technologies or approaches, but it does require strong advocates at a local level to champion decarbonization as a priority. Our research reveals this approach is typically favored by industry sectors with high carbon intensity sites such as mining and industrial manufacturing.



From top down to bottom up

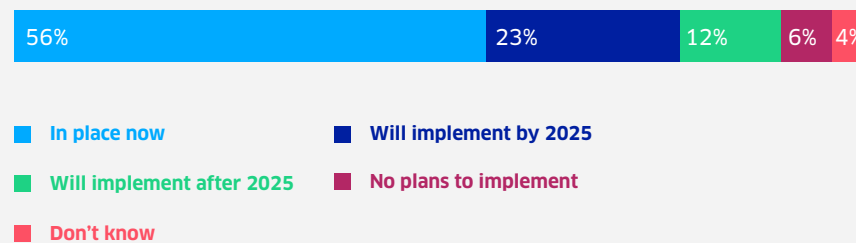
Although our research shows many organizations today favor decarbonization models that retain a high level of centralized control, we also find **many organizations are empowering their employees to put forward ideas for addressing decarbonization**. This means organizations retain the benefit of top-down control over decarbonization strategy, while also benefiting from organic good ideas generated by those at the front line of execution.

Figure 7 shows more than half (**56%**) of organizations surveyed say they have **implemented opportunities for front-line staff to be actively involved in designing decarbonization solutions**. A further quarter (**23%**) will look to introduce these **internal collaboration models** by 2025.

Figure 7

Does your organization have any of the following in place?

Employee engagement: Opportunities for front-line employees to be actively involved in the design of decarbonization solutions.



The ENGIE Impact View

Managing Stakeholder Interests on the Decarbonization Pathway



Clémence Fischer

Director, Sustainability Solutions - EMEA, ENGIE Impact

We see, particularly for industrial and manufacturing organizations, that the decision power for investment decisions is strong at the site level. The site itself will have its own P&L, or there will be a regional business unit that consolidates several sites. In parallel, often there will be a corporate sustainability or engineering team in charge of supporting the business units or the sites directly, to meet corporate decarbonization objectives.

With greater devolved responsibility for managing decarbonization, comes a greater need to manage all stakeholders, from sites to BU to corporate, because the interests of all players may not be initially aligned. At the site level there is a strong focus on financial management and return on investment, while central stakeholders may be looking for pilot projects they can scale across the wider organization, or for designing actionable methodologies and best practices to decarbonize that could be replicated over a portfolio of sites.

Initially, this can create tension. Managing these variety of stakeholder interests successfully requires strong stakeholder management and alignment. On top of that, putting in place an internal governance around sustainability is a key success factor to achieve targets – just like financial governance.

One approach we are beginning to see more companies adopt and that we adopted for ourselves at ENGIE Impact is carbon budgeting.

In market-leading organizations, each business unit typically has responsibility for a carbon budget which they need to manage to ensure new projects do not exceed specified carbon outputs and thus to make sure business unit carbon emissions reduce over time as per decarbonization trajectory and targets. Carbon pricing is another key enabler to give a fair value to decarbonization technologies against fossil fuel based sources of energy. This approach can help to focus attention on how business units can support the overarching corporate decarbonization target, and how sites can get the full value of their sustainability efforts.



Action 3: Close the Implementation Expectation Gap

Realign executive vision with operational know-how to unlock decarbonization firepower.

Once organizations have committed to long-term investment in decarbonization and established the right organizational structures to deliver these investments, they need to be mindful of the implementation gap that can arise. This is one of the biggest risks to successful decarbonization execution.

The **implementation gap** – a disconnect that can arise between the views and expectations of executive management and people in decarbonization implementation roles – **is the source of many stalled decarbonization projects**. One C-Suite leader at a U.S. pharmaceuticals company describes the pain as:

“Mid-level managers are not following through and executing the plan, but instead are falling back on business as usual.

The results of our survey show that executive decision-makers tend to be more optimistic both about the potential for decarbonization and on their organization's ability to drive through these changes, compared with survey respondents in implementation roles.

Lessons from Corporate Decision-Makers

“The commitment has to **start from the top of the organization** in order to be effective and sustainable. Top level executives have to understand and buy in to the benefits.”
– Healthcare company, U.S.

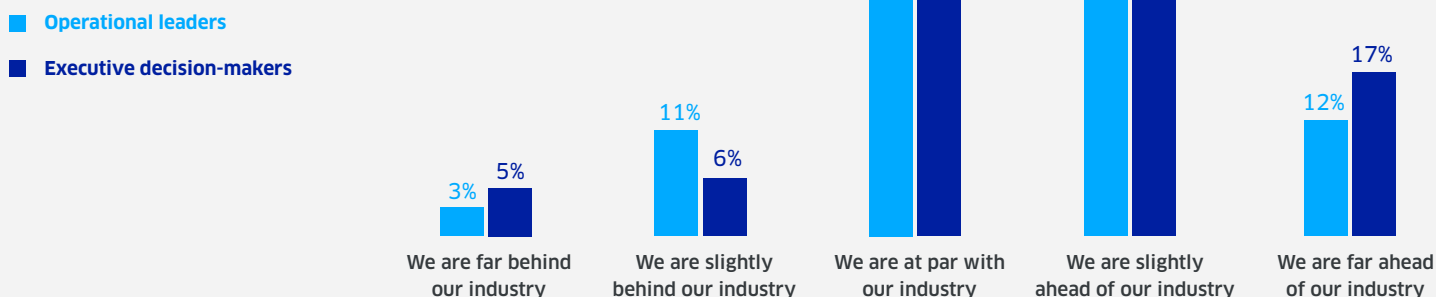
“Take every suggestion seriously, **review ideas from employees**, they often see more because they work at the source.”
– Data centers company, Germany

For example, **executive decision-makers are more likely to consider decarbonization as a source of competitive advantage**. 78% believe having a leading sustainability strategy with excellent execution will drive competitive advantage compared with just 62% in operational roles. Similarly, 54% of executive decision-makers rate their organization as 'considerably successful' or 'extremely successful' in executing its sustainability plan, compared with just 41% of respondents in operational roles.

Figure 8 shows that while 56% of executive decision-makers believe their organization is slightly or far ahead of their industry peer group when assessing their decarbonization progress, just 46% of respondents in operational roles think the same.

Figure 8

How do you assess your organization's current level of progress compared with your industry competitors?



Aligning the realities of strategy and execution

This misalignment in views and experiences between executives and operational roles creates potential risks. If executives are too far removed from the reality of their organization's decarbonization progress, they may be likely to underestimate the amount of further effort and investment required to accelerate progress. If operational leaders are not able to gather robust data or to communicate an accurate assessment of progress or return on investment, it can be more challenging for them to make the case that the organization needs to move further and faster on decarbonization.

One approach to overcome this tension is to ensure there is a clear and shared rationale for the organization's carbon reduction activities. Our research shows, for example, that **executives are more driven by meeting the needs of their external stakeholders** (for example, addressing customer expectations on climate change or meeting shareholder pressure), while **operational leaders tend to have a greater focus on cost reduction and regulatory compliance**. Realigning executives and operational leaders under a common decarbonization purpose can help to clarify decarbonization implementation priorities, milestones and investment requirements.

The ENGIE Impact View

Aligning C-Suite and Sustainability Leadership



Jason Bell

Director, Sustainability Solutions – Americas, ENGIE Impact

The responsibility for decarbonization strategy within many organizations typically falls between the ambitions of C-Suite and sustainability leadership. The organization's leadership often takes the first step in defining and endorsing an overall decarbonization vision or goal plan, while the sustainability leaders are typically the group responsible for creating the plan and actions to move the organization toward execution and implementation.

At ENGIE Impact, we are engaging with many organizations and find these stakeholders can often face deeper challenges due to competing or misaligned priorities within the organization.

There is a risk that if decarbonization strategy and execution are not well-aligned, empowered, and supported, the strategic plan can face a variety of challenges along the road to actionable decarbonization.

They take the overall mandate from executive leaders – for example, to achieve a 50% carbon reduction by 2030 – and then they figure out the best way to achieve this.

Leadership at all levels of the organization should be both aligned and engaged not only in the development stages, but also continuing to provide sponsorship and visibility that carries into the execution phases of decarbonization. In the manufacturing sector, decarbonization can have potential business-altering implications that require tactical coordination of many factors including their production processes, supply chains, and internal governance structures. This reinforces the need for company-wide alignment that includes operations and procurement functions to ensure clarity is not centered only on the “why” but equally as focused on the “how” actionable decarbonization can occur while ensuring minimal impact on the business.



Action 4: Increase Executive Accountability

Hold executives accountable by treating decarbonization commitments as seriously as financial targets.

In the first three insights above, we have explored the importance of having a clear decarbonization roadmap, commitment around investment priorities and superior implementation capability.

However, without strong leadership vision and commitment to drive these actions, it is incredibly difficult to achieve market-leading sustainability credentials.

While executives understand they have a role to set expectations at the outset of an organization's decarbonization journey, it is important that they maintain this commitment for the long-term.

69% Nearly seven in ten of the organizations in ENGIE Impact's survey say the **lack of incentive or ownership at executive level** to drive decarbonization initiatives **is a barrier to decarbonization progress**.

Nearly one in three (29%) cite this as a 'major barrier'.

Lessons from Corporate Decision-Makers

"It is important for executives to be responsible for decarbonization, with a **top-down approach that engages employees** by giving them clear criteria/targets and an opportunity to provide feedback and receive assistance."

– Retail company, U.S.

"We have introduced **decarbonization metrics into performance scorecards for all executive level personnel**.

They agree objectives at the start of the year for their functional areas or business units, which must include a commitment to implement the organization's decarbonization plan.

They are then measured on their progress against this during the year."

– Automotive company, France



Executive accountability anticipated to increase

Just under half of the organizations in our survey (49%) say their **leaders have clear, personal accountability for the organization’s decarbonization targets** (see Figure 9).

As part of their formal performance review process leaders in these organizations are held to account for demonstrating progress against the organization’s public Net Zero goals. They play an important role in championing decarbonization as a fundamental corporate priority both inside and outside the organization. They can challenge dissenters and ensure that achieving decarbonization commitments is treated as sacrosanct – just like achieving financial targets.

Figure 9

Does your organization have any of the following in place?

Executive accountability: Clear decarbonization targets linked to performance review of senior leaders in your organization.



Executive reward: Executive bonus or remuneration linked to achieving decarbonization targets.



- In place now
- Will implement by 2025
- Will implement after 2025
- No plans to implement
- Don't know

Levels of accountability are set to increase. Figure 9 shows a further 29% expect to have formalized an accountability structure for decarbonization targets within their organization by 2025. 13% anticipate doing so in the future, but without a clear plan to do this before 2025. Just 6% say stronger management accountability is something their organization does not plan to adopt.

The strength of support behind this measure suggests there is a growing understanding of the critical role leaders play in getting their organization to move behind shared decarbonization priorities at pace.

Accountability needs consequences

Although nearly half of respondents in our survey say the senior executives in their organization are being held accountable for decarbonization goals, far fewer suggest that executive remuneration is linked to achieving these targets.

Figure 9 also shows that only a third (36%) say the remuneration or bonuses paid to executives is linked to decarbonization outcomes.

Here we see clear regional differences: the proportion of organizations linking executive remuneration to decarbonization rises to **47% for organizations in the Americas**, but drops to **35% for the Asia-Pacific region** and to **25% for the EMEA region**.

This suggests a clear lack of consequences for leaders who do not uphold their organization's carbon reduction commitments. Without a tangible incentive to keep decarbonization front of mind, or an obvious link to their career development or personal reputation, it is unsurprising that leaders may choose to focus elsewhere on targets that are being linked more directly to their personal income. This is especially true at a moment when their time and attention is being pulled in multiple directions and the demands on their focus are intensifying.





Action 5: Activate the Right Decarbonization Enablers

Innovative finance models, carbon pricing, and decarbonization data maturity all boost sustainability implementation success.

All organizations need to follow a decarbonization roadmap that is appropriate for their level of resources, ambitions and capabilities. Throughout this journey, however, there are common enablers available to leaders to turbocharge decarbonization activity.

Our survey results show three specific enablers will be increasingly important to leaders over the next three years. These are:

1. Adoption of **innovative finance models**
2. Investing in **decarbonization data maturity**
3. Implementing **carbon pricing** with their organization

Lessons from Corporate Decision-Makers

“We should **focus on data and accelerate the promotion of the carbon market** by continuously improving the statistical accounting working mechanism, enriching digital management methods, and establishing a regional and industrial carbon emission total target coordination mechanism.”
– Manufacturing company, China

“**Regularly share data with your stakeholders.** Keeping stakeholders in the loop is advisable to ensure your decarbonization ambitions stay on track.”
– Manufacturing company, India

“**Be consistent in data measurement** and put in place ever-increasing goals for each subsequent year, even if it is costly.”
– Technology company, U.S.

Unlocking capital for investment: adopting innovative finance models

Shifting organizational thinking from a short-term view of decarbonization investment to a long-term view can be one of the biggest barriers facing any organizational leader. This is particularly true when the pressure to invest in new technologies – or fit out and run operational sites in a carbon efficient manner – requires significant up-front investment. Organizations that fall back on a cautious investment approach can find they underinvest in high-impact strategies and instead promote low-cost initiatives which deliver low decarbonization returns.

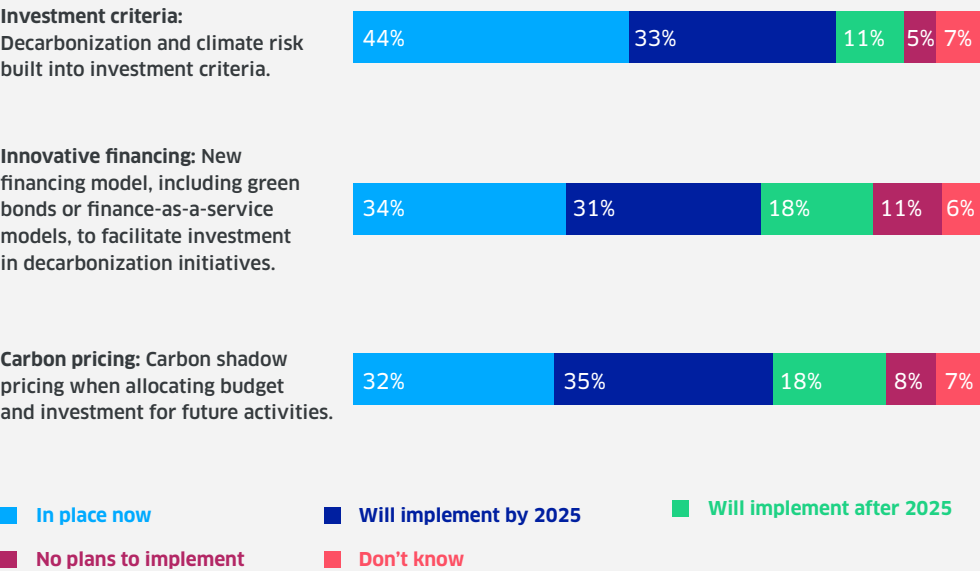
Many leaders are navigating this challenge by exploring the innovative finance options available to fund capital-intensive projects. Figure 10 shows a third **(34%)** say they **have put in place innovative financing options** including green bonds or finance-as-a-service models to facilitate investment in their decarbonization initiatives.

The uptake of these new financing models is set to nearly double within the next three years, as a further **31% anticipate adopting these innovative types of finance by 2025**. This represents a strong endorsement of new models of funding that provide greater certainty about the availability of capital to quickly scale decarbonization projects that can demonstrate a strong track record of success. At a time when both financial and energy markets are experiencing greater volatility, it is not surprising that more executives will favor options that de-risk their investment strategy.



Figure 10

Does your organization have any of the following in place?



Carbon budgeting

Organizations today are taking a fresh look at the criteria they use to evaluate future investments. Among our survey respondents, 44% of organizations currently have in place a process of incorporating decarbonization and climate risk into their investment criteria to better account for both the potential risk and upside of new investment projects. A further third (33%) say they have a plan to do this over the next three years.

Some organizations are going further than simply changing their investment criteria to incorporate climate risk. They are putting in place carbon pricing or a carbon shadow budget to ensure corporate investments do not throw their decarbonization ambitions off course. Carbon budgeting is a process that assigns a carbon value to activities and forecasts the outcome of investments based on their carbon emissions risk and reduction potential.

1/3

32% of the organizations in our research tell us they have already implemented carbon budgeting within their organization, a further third (35%) anticipate doing so by 2025.

Just as with financial budgeting, the process of carbon budgeting gives functional teams or geographic sites a finite carbon allocation to manage as part of their yearly cycle of activity and investment. They cannot exceed this carbon budget allocation without financial penalties or pursuing carbon offset opportunities elsewhere.



Data maturity: aiming for a single source of truth for decarbonization data

Decarbonization is one of many business processes that relies on the availability of robust and reliable data from which executives can make decisions about current effectiveness and future priorities. In spite of this, only one in three organizations in our survey (37%) say they **have a single source of truth of decarbonization data for their whole organization** (see Figure 11). This means a majority of organizations currently rely on synthesizing different data sources or manual data extraction to gain an overall assessment of performance, which is both time-consuming and unreliable.

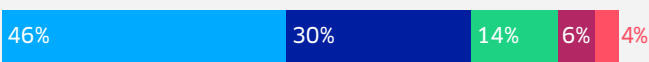




Figure 11

Does your organization have any of the following in place?

Digital tools: Purpose built tools to enable transparency of decarbonization data and insights.



Decarbonization data: A single source of truth for decarbonization data for the whole organization.



- In place now
- Will implement by 2025
- Will implement after 2025
- No plans to implement
- Don't know

Without a single source of truth – or the digital tools to enable transparency of decarbonization data – executives will find the data enabler ineffective at driving decarbonization decision-making and ultimately at reducing carbon output.

That is why our survey shows a significant acceleration in the rate of decarbonization data maturity over the next three years. **Between now and 2025, the proportion of organizations that will move toward better integrated carbon reporting will more than double**, from 37% today to 79% by 2025. Just 5% of organizations say they do not consider decarbonization a priority for future investment.

The ENGIE Impact View

Three considerations for shifting to a decarbonization as a service model



Stéphane Rapoport

Managing Director, Sustainability Solutions – EMEA, ENGIE Impact

The approach that companies have traditionally taken to funding is that there is a capex envelope available, and any new project needs to go through an investment approval process, where it is expected to show a projected return on investment, maybe of around 7%, with a clear payback period, perhaps of around three years.

The challenge in this conventional model is that decarbonization projects have longer payback periods than the typical core business of the organization.

The first business priority is always to allocate capex to core business investments, and this limits investment available for decarbonization.

The alternative many companies are now exploring is a service model, where capex is put outside of the balance sheet, so a third-party partner takes care of that. This provides investment for decarbonization of heat or green energy project. This new model provides greater confidence in the provision of decarbonized utilities.

Executives moving to this model need to consider three things. First, setting clear KPIs because the delivery depends on an outsourced service model. Second, whether existing internal staff managing decarbonization projects can be redeployed. Third, educating the procurement function as in many organizations they are not typically used to dealing with these innovative financing models.



Action 6: Collaborate with Supply Chains

Use a mix of shared incentives and the procurement leverage to address Scope 3 carbon emissions.

For organizations to achieve the greatest step change in their long-term carbon reduction they need to address not just the emissions produced as a direct consequence of their own output and activity, but also by their supply chain.

This is an area where current progress is relatively slow. Four in ten of the respondents to our survey say they have made no or limited progress in addressing Scope 3 emissions. Just 13% of those surveyed consider themselves to be market-leading in their approach to addressing Scope 3 emissions.

Understandably, many organizations have initially focused on the areas of decarbonization within their direct control. In fact, working with supply chain to address Scope 3 is identified as the third most significant barrier to effective decarbonization among the respondents to our survey: 75% identify this as a barrier impeding their decarbonization efforts, 26% of whom describe it as a 'major barrier'.

Lessons from Corporate Decision-Makers

"We have implemented a new procurement approach in which **suppliers are required to provide annual reporting on their carbon emissions reduction**. While we have not yet set targets for suppliers, we do expect a see year-on-year reductions in carbon emissions as proof of their commitment to achieving net zero."

– Pharmaceuticals and life sciences company, U.K.

"**We encourage information sharing among across our supply chain.** This is an area that we can collaborate as it is targeting a common goal. Collaboration and learning from each other can be key in not only driving your success but others' successes as well."

– Retail company, U.S.

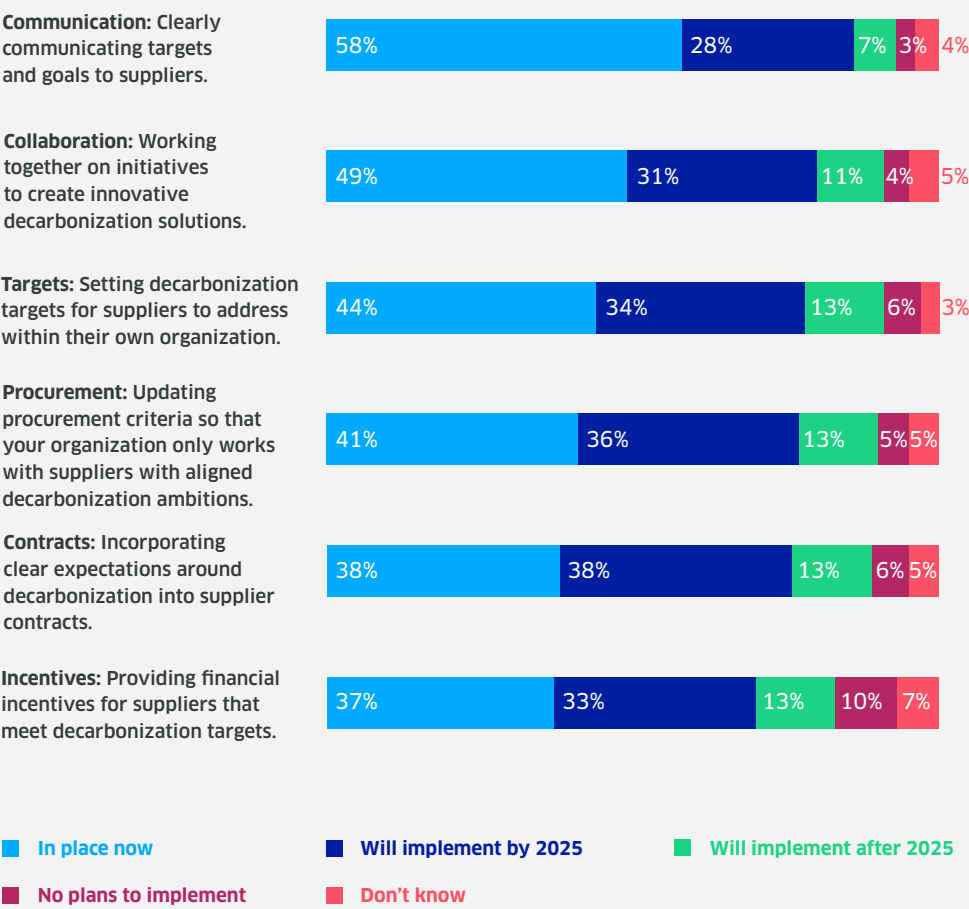
Scope 3 strategies: the collaborative approach

Our survey shows the organizations that have begun to work proactively with their supply chain to address carbon emissions typically begin with open conversations about their own decarbonization ambitions and how this influences their expectations of suppliers.

58% Nearly six in ten of survey respondents say their organization has clearly communicated its own decarbonization goals to its suppliers, with a further 28% expected to do so by 2025 (see Figure 12).

Figure 12

Does your organization have any of the following in place when working with supply chain to reduce Scope 3 emissions?



Once clear expectations about decarbonization goals have been firmly set, this provides a springboard from which to explore areas of common interest and opportunities to collaborate on initiatives that will result in a reduction in Scope 3 emissions.



Scope 3 strategies: using the procurement leverage

Our research suggests that organizations are not only relying on the power of collaboration with their suppliers to find opportunities to reduce carbon emissions, but they are increasingly using the procurement leverage at their disposal to influence the pace of their suppliers' decarbonization actions.

For example, as well as communicating an expected direction of travel, **many organizations are now setting specific decarbonization targets for their suppliers.** Figure 12 shows 44% of organizations surveyed say they are doing that today, and further 34% expect to do so over the next three years.

Having clear commitments and actions to reduce carbon emissions is also being used as criteria through which organizations are evaluating potential new suppliers, with four in ten (41%) organizations saying they have updated their procurement criteria so they now prioritize working with suppliers who are aligned to their own decarbonization ambitions.

A smaller number of organizations have gone further still:

38% have incorporated decarbonization commitments into formal procurement contracts within their supply chain. A further 38% anticipating doing so by 2025.

This suggests that organizations want to achieve watertight decarbonization commitments from their supply chain and will increasingly use this as a formal KPI to measure the success of the contractual relationship.

While using the stick to force the hand of suppliers, organizations are also using the carrot to encourage their suppliers to actively embrace decarbonization projects. Just over a third **(37%) of organizations today say they offer financial incentives –** for example, agreeing success-related fee structures or preferential payment terms – **to suppliers that meet specified decarbonization targets.**



The ENGIE Impact View

Linear and Non-Linear Approaches to Scope 3 Emissions Reduction



Nicolas Lefevre-Marton

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The traditional approach to address an organization's Scope 3 emissions involves working with suppliers to first establish their carbon footprint, then build their roadmaps, and progressively drive increasingly stringent targets and actions. This approach isn't trivial because a lot of companies, particularly smaller ones, will have limited capabilities and resources, and a generally poor understanding of their carbon impact. It can therefore take a long time to see results, perhaps a decade, especially if you have a long tail of small suppliers.

An alternative approach is to directly focus on specific actions you want your supply chain to take – for example, working on making part of a supply chain 100% renewables based.

The focus here is not on mapping the carbon footprint but on incentivizing suppliers to act and working with solutions providers, in this case renewable energy actors, to make available projects to a set of suppliers. Taking this approach means an organization can focus on the most carbon intensive parts of its supply chain to prioritize changes that will have the greatest impact. By targeting one segment of its supply chain, an organization can identify the key levers for decarbonization, and it can share this knowledge and expertise with its suppliers – creating a win-win scenario for everybody.

Conclusion: From Insight to Action

Throughout this report we have highlighted six insights from our latest Net Zero research that we believe provides a roadmap of the priorities organizations need to address if they are to be successful on their route to Net Zero carbon. In this final section we summarize practical actions you can explore within your own organization to accelerate impact within your decarbonization journey.

1. Maintain Long-Term Focus and Belief

- **Do not risk slowing or halting progress by removing funding** from decarbonization initiatives, even within a more challenging economic backdrop – a long-term commitment is required.
- **Keep one eye on the long-term competitive advantage** to be gained by investing in superior sustainability execution capabilities.
- **Balance achieving quick wins with investment in long-term strategies** – initiatives such as decarbonization of heat or carbon capture and storage are investment-intensive but can generate transformative carbon reduction outcomes.

2. Establish Governance and Accountability

- **Design a decarbonization capability model** that plays to your organization's strengths and generates the maximum return on decarbonization investment.
- **Align decarbonization resource and expertise** with high intensity carbon hotspots in your organization so capability is focused in the areas that will benefit most.
- **Provide opportunities for front-line staff** to be actively involved in the design of decarbonization solutions to enhance top-down thinking.

A **roadmap of the priorities** organizations need to address if they are **to be successful** on their route to Net Zero carbon.

3. Close the Implementation Expectation Gap

- **Communicate decarbonization drivers and priorities** to surface the common motivators between executive and operational roles.
- **Ensure executives are given an accurate understanding** of current decarbonization progress, benchmarked against progress in the industry where possible.

4. Increase Executive Accountability

- **Incorporate clear decarbonization targets** as part of executives' formal performance reviews.
- **Consider linking executive pay and bonus structures** to achieving agreed decarbonization targets.
- **Set clear consequences** for executives who fail to deliver sufficient progress on decarbonization goals, treating climate outcomes as seriously as financial outcomes.

5. Activate the Right Decarbonization Enablers

- **Explore innovative finance models** to gain access to capital to scale decarbonization projects quickly.
- **Adopt carbon pricing and carbon budgeting** to assess the environmental risk and upside of corporate investments.
- **Invest in the digital and data tools** necessary to provide a single source of truth about your organization's decarbonization progress.

6. Collaborate with Supply Chains

- **Be transparent in sharing your organization's Scope 3 targets** with suppliers as early as you can to set expectations about how they can support your decarbonization goals.
- **Align decarbonization interests** by encouraging collaboration between and within your supply chain, with incentive mechanisms to share in the benefits.
- **Use formal procurement processes** to make supplier decarbonization commitments or targets binding.



About ENGIE Impact’s Research

ENGIE Impact commissioned independent research consultancy Meridian West to conduct research among 505 senior decision-makers through online research during August to September 2022.

All survey respondents have responsibility for making or influencing decisions regarding decarbonization strategy and/or implementation within their organization. 46% of survey respondents are in C-Suite or other Executive Management roles (Figure 13). A range of functional roles were invited to participate in the research, including technology, general management, sustainability, operations, finance, strategy and risk roles.

Research respondents are situated within 19 different markets globally. There is a broadly equal split between the Americas region (Brazil, Canada, Chile, Mexico and U.S.), Asia-Pacific region (Australia, China, Hong Kong SAR, India, Indonesia, Malaysia and Singapore) and the EMEA region (France, Germany, Italy, Saudi Arabia, Spain, United Arab Emirates and U.K.).

All respondents are from organizations that employ more than 10,000 people globally, with 41% from organizations employing at least 50,000 people (Figure 14). The 505 research respondents represent a range of industry sectors, with the largest concentrations in the technology, industrial manufacturing, automotive, retail and mining sectors (Figure 15).

Figure 13

Which of the following levels of seniority best corresponds to your role?

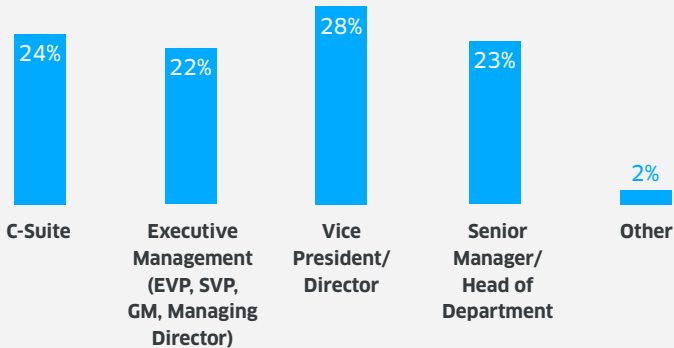


Figure 14

How many individuals does your organization employ globally?

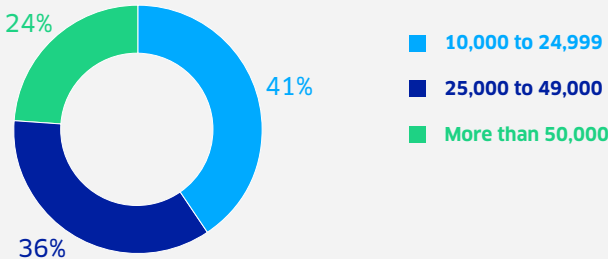
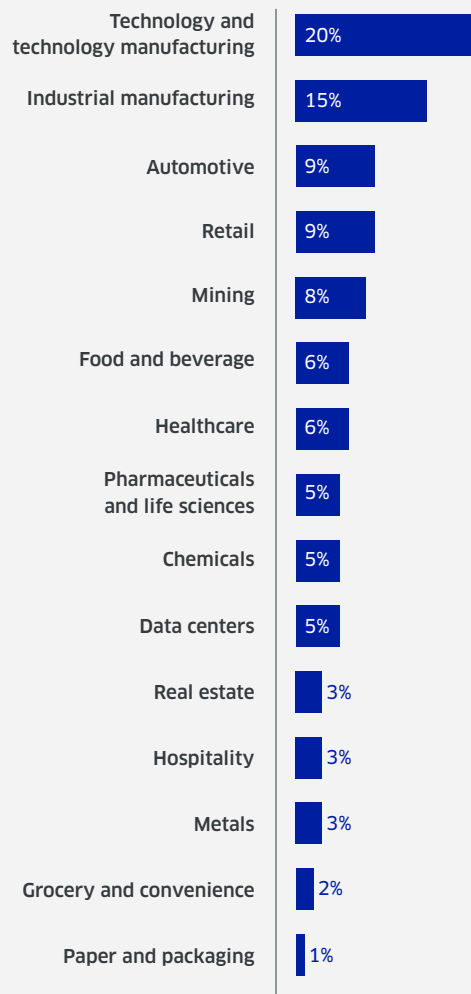


Figure 15

In which industry does your company primarily operate?



Thank you

We would like to thank the senior executives from 505 organizations who have taken part in our research this year. Their views and experiences are showcased in this research paper, along with the global expertise and insights of our ENGIE Impact colleagues. We hope these insights will provide the practical guidance and reassurance to support you on your organization's own pathway toward Net Zero carbon.

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Accelerate Your Sustainability Transformation

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Looking for more?

Explore our 2022 Global Executive Survey Report, [Bridging the Gap Between Net Zero Optimism and Operational Reality](#), to compare findings with our 2023 survey results.

