

Sustainability in Australian business: Are we ready for a Deep Green future?

Australia is taking good steps toward integrating sustainability into the enterprise but is lagging the world in some important areas of progress. Thankfully, a few key adjustments can see business leaders catch up to global ESG leaders.



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Foreword

It's the challenge of our generation. How do we, as citizens and business leaders, ensure we can say we did everything in our power to avoid catastrophic climate change? It's essential that we bring these two sides together – citizenship and business leadership – to make the strides forward needed to meet ambitious targets in carbon reduction and practices that build a more circular economy for the future. A deep green future.

This report is a look at Australian business sustainability leadership in comparison to 16 regions and 11 industries across the world. On the surface, the results suggest Australian business needs to make progress to ensure ESG sits firmly at the heart of business thinking. But there are clear steps that will put businesses onto a firm footing for the future.

By offering these comparisons we also produce a baseline in global leadership for others to follow. Many of the best companies know how to leverage an emerging best practice to embrace the next wave of sustainability. We hope all Australian businesses can find utility in this report and its lessons for building C-suites and boardrooms that understand the importance of strategy, culture, and structural change in the pursuit of ESG outcomes. And how essential data is for knowing where we are today to see where we need to be tomorrow.

Jonathan Smith

Head of Sustainability Solutions APAC Region, Cognizant

Introduction

The world has awakened to the urgent need for real results on climate action. And with that awakening, we see a new breed of business leadership emerging that views sustainability as not just a compliance check but as a path to stronger business performance. Beyond just 'green', these businesses become Deeply Green, with sustainability practices at the very heart of business strategy.

For the past two years, we have tracked how sustainability in business has been evolving as an essential part of strategic development.

In our latest global report, we worked with Oxford Economics to survey 3,000 executives across 16 regions and 11 industries – including 250 in Australia – to examine their sustainability practices, challenges, and vision for the path ahead. (For the complete report, see “*Deep Green: How data, technology and collaboration will drive the next phase of sustainability in business*”).

While the data reveals Australian businesses are taking meaningful action to improve their sustainability performance, it also shows several areas in which these businesses lag the global average.

For example, globally, respondents reveal an unflagging belief in sustainability as a strategic priority, with nearly 70% of all respondents ranking sustainability as very high in their corporate strategy. Australia, however, is below that global average, with 63% confirming that sustainability is highly vital to their corporate strategy.

While Australian respondents reveal a number of reasons why there is slower progress, global peers are investing heavily into sustainability initiatives and are holding strong expectations of financial rewards from doing so.

Not every business needs to lead from the front, but with a growth in deeply green businesses there are now many opportunities to learn from best practices and model your own path forward to analyse your business, set ambitious goals, and become part of the solution that many customers and partners are looking for.



Australia is falling behind on ESG action

In our survey, we analysed the results of 323 questions to uncover where Australian businesses were outliers – either ahead or behind – compared with the global average across all other countries.

At the highest level, we know that everyone faces problems in achieving sustainability targets. But while 42% globally agreed they have achieved targets over the past two years, only 35% of Australian businesses agreed.

Understanding the wider range of factors that are feeding into this lower level of achievement is crucial. We see three areas where the results show trends on Australia sitting behind global peers.



Data baselines and reporting

Across a wide range of questions where Australian showed below average results, there is a heavy emphasis on data factors that see Australia tracking behind the world.

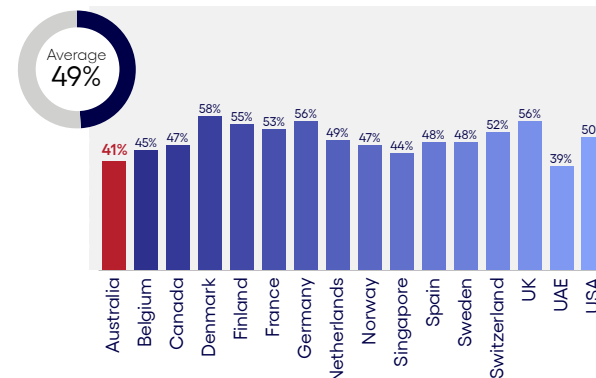
For example, while 49% globally said they have the capability to report data on sustainability performance in a timely, reliable fashion, only 41% of Australian respondents agreed. Similarly, Australian businesses saw the lowest rate of agreement on the importance of getting data analysis, reporting and performance management right, with Australian at 55% against a global average was 61%.

These data factors feed into questions around knowing the benchmarks we are working from and our ability to report on our progress. 34% of Australian respondents say it is difficult to find data to benchmark sustainability performance against industry peers, compared to 28% globally. Conversely, while 46% of global respondents agreed on the importance of establishing a robust baseline of environmental performance to measure against, Australia only reached 38%.

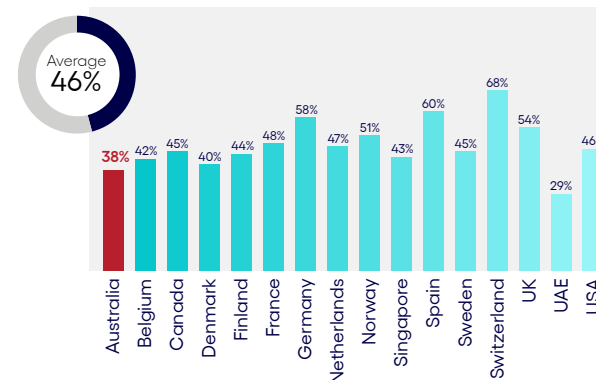
It follows then that while the global average on regularly reporting progress against sustainability targets was 39%, but for Australia it was 34%.

We know data is crucial. We need robust systems of measurement and reporting in place to know where we are starting from and how sustainability initiatives are impacting on business metrics.

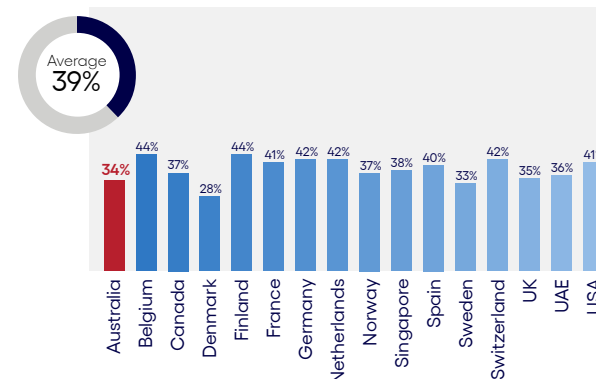
Can report timely, reliable data on performance of sustainability initiatives



Established a robust baseline of performance to measure environment initiatives



Regularly report sustainability targets to management



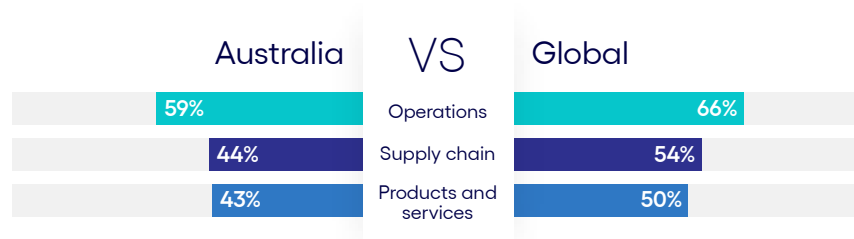


Strategy and culture behind on maturity

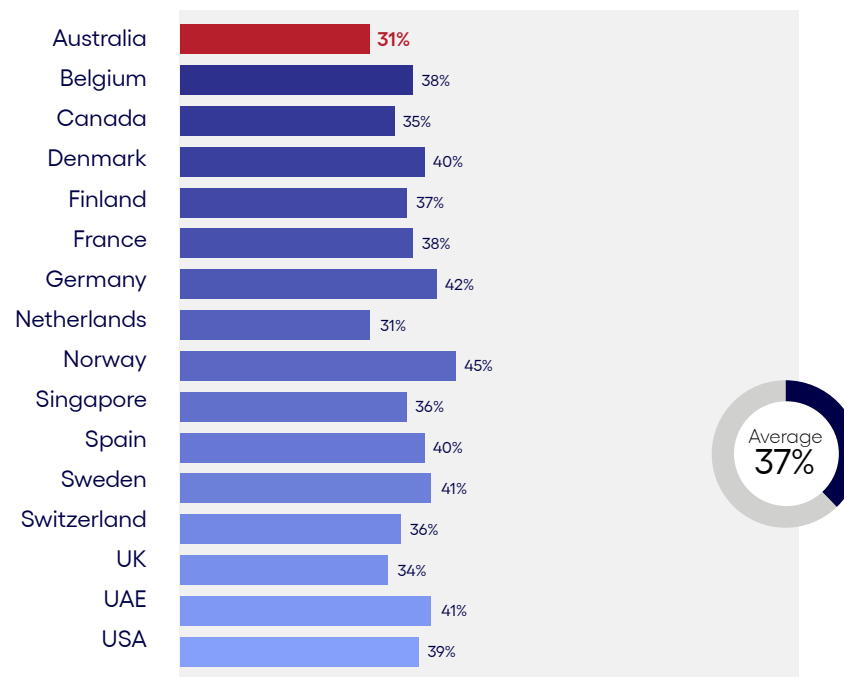
Strategically, we see Australian businesses are behind on aligning sustainability strategy to current or future regulatory compliance demands. It's still early days globally, with 37% agreeing they have achieved this alignment, yet Australia was at just 31%. We do see positive signs, with 56% of Australian respondents saying they are collaborating with suppliers to improve sustainability, but the global average is 60% – showing again that Australia is lagging its peers.

We also see several strategic challenges here. Australia is behind the global averages on applying sustainability strategies toward specific focus areas are:

Applying sustainability strategies towards specific focus areas



Comply with current or future official government, industry or regulatory demands



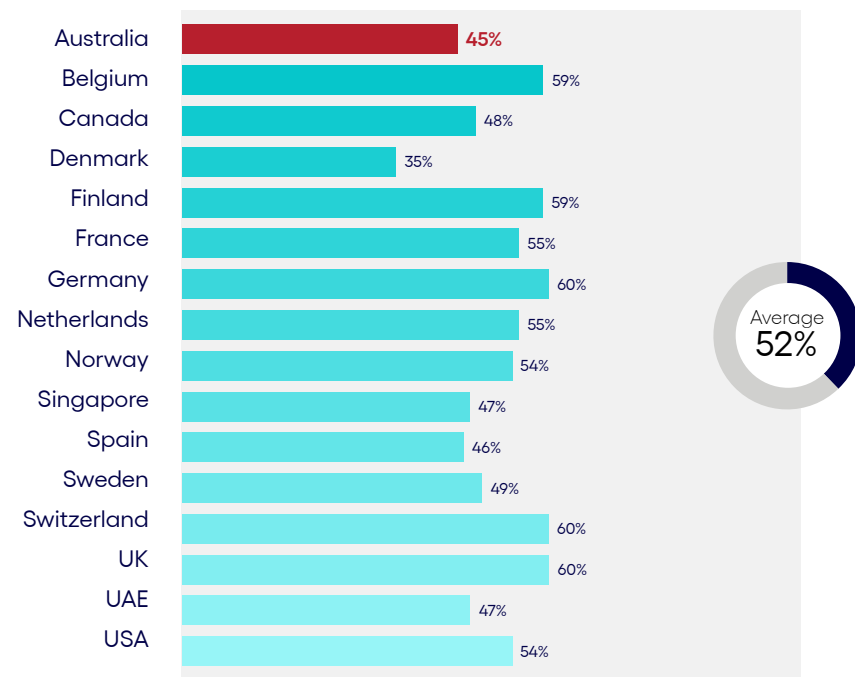
We also see that while over half (52%) globally agree that environmental strategy is fully integrated into business strategy, 46% of Australian respondents say the same.

These strategic factors are also reflected in cultural progress. 63% of Australian respondents agree that there is a strong culture of sustainability throughout the company, compared to 66% globally. But where the global average for those who have implemented a code of conduct for environmentally

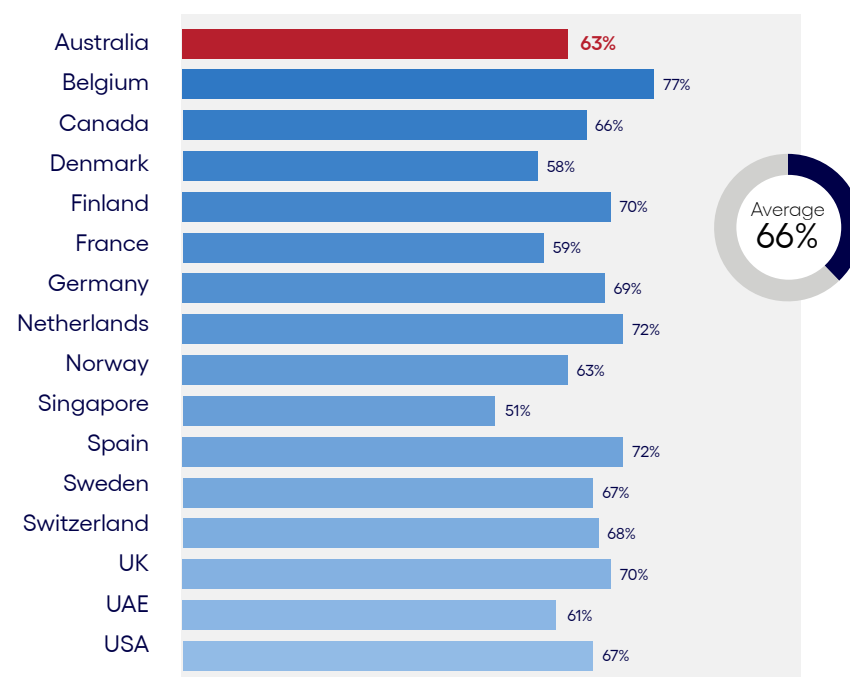
friendly behaviour is 50%, Australia is 42%. And where 32% of global peers have progressed to offering employees incentives to improve their environmental footprint, only 23% of Australian respondents have done so.

Overall, we see that Australia follows similar trends to the global average, with many areas of positive progress. It simply trails in terms of maturity and momentum.

Environmental strategy is fully integrated as part of their corporate business strategy



Reporting a strong culture of environmental sustainability



Structural integration: a decisive step toward progress

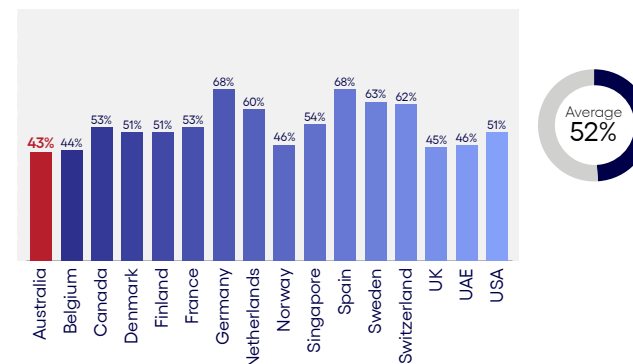
We found that more than any other country, Australian respondents see a lack of sufficient investment as a challenge that inhibits progress toward achieving sustainability targets (34% Australia, 27% global). But is funding a cause – or a symptom of poor structural integration?

Structurally, we are the least likely to have the COO involved with the design and development of ESG strategy, at 43% in Australia compared to 52% globally. And while 53% globally agree that they have significantly adapted organisational structure to improve sustainability performance, Australia sits at 46%. Both suggest that ESG planning is not being prioritised as business-critical.

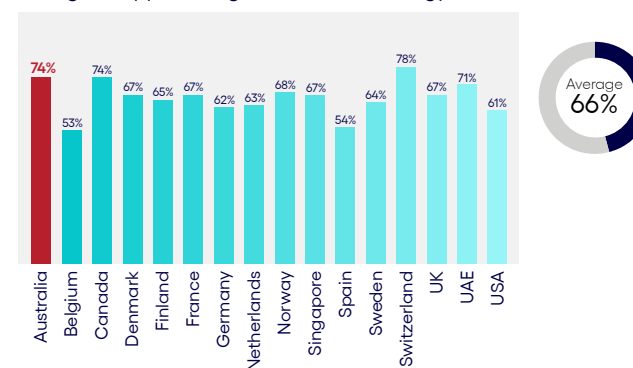
We also see that Australia is an outlier when it comes to who holds strategic sign-off on sustainability planning versus who holds accountability for delivery. Australian CEO's were 8% more likely to be responsible for sign off compared to global, without being more accountable than other members of the C-Suite globally. Compare this to Australian CSO's who were 8% less likely to be responsible for sign off compared to global while only being marginally (2%) more likely to be accountable for delivery.

This suggests that the CSO is not an empowered member of the C-suite in Australia at the current time, which may be a contributing factor to the perceived funding challenge for sustainable initiatives in Australia. This is not to say the CSO should not be held accountable but that the roles of strategy development accountability should be more evenly shared.

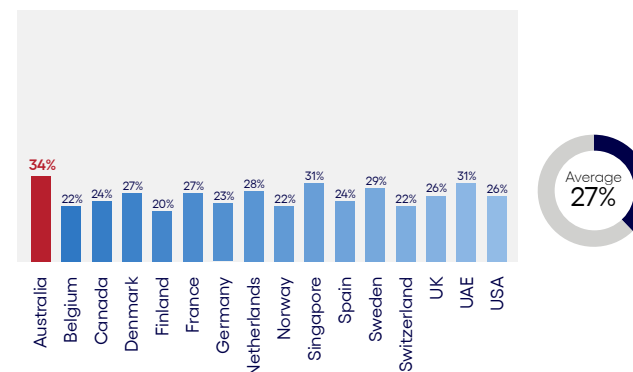
CEO is involved in the design and development of ESG strategy



CEO gives approval/sign-off for final strategy



List "lack of sufficient investment" as a key inhibitor to ESG



Looking forward: a focus on fundamentals

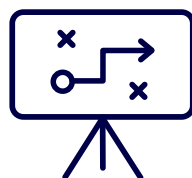
Overall, this survey suggests that Australia tracks similarly to global trends but simply lags the field in putting the right strategic and tactical priorities in place. But it is important to close this gap in coming years, and there are easy wins to be achieved by focusing on the fundamentals.

Progress is possible. By improving our data capture and strategic planning for sustainable business practices, Australia can quickly catch up to the world leaders and take advantage of the opportunities arising through ESG-aligned transformation. For those who are struggling to meet, or even set, sustainability goals, it is a good time to examine the successes being achieved elsewhere and follow the paths they have laid.



Critical factors toward real green impact

In response to these findings, we have identified four key areas where Australian business should focus to improve their approach to sustainability: strategy, power structure, culture, and data.



Close strategy gaps

As we have seen, it is commonplace for sustainability strategies to be disconnected from the company's business strategy (such as supply chain management), operating essentially as separate business pillars.

We see echoes of the early digital era in this, where Australian businesses 15 years ago saw digital as separate from business strategy. Until there is full integration, businesses will fail to identify and leverage the opportunities associated with innovation that is being driven by modernisation aligned with sustainability practices.

We advise companies to unite their sustainability and corporate strategies, starting with the board of directors and other top executives on the merits of doing so.



Rebalance power structures

For sustainability strategies to take hold, the senior leaders held accountable for achieving sustainability goals need to also be empowered to make the bold decisions and disruptive changes needed to achieve expected outcomes.

However, as we have seen, that's not the case globally but particularly for Australian businesses. While CEOs have budget and strategy authority, they are seldom held accountable for meeting sustainability targets and, therefore, have no incentive to ensure these goals are being given the recognition required to become a true pillar of business success. COOs, meanwhile, are less likely than global average to be involved in the sustainability strategy at all.

The pressure is on CSOs to deliver outcomes, and yet they are not empowered to have a seat at the strategy and budget table. All this points to the need for leadership models to evolve. By striking the right balance in distributing responsibilities and accountability, businesses can improve the quality of their sustainability outcomes.

Underpinning all of this is the general state of Australia's ESG regulatory system. Because Australian organisations are not compelled to comply with a mandatory set of regulations, the leadership model has had no reason to evolve. However, this research suggests it's time for a regulatory rethink on the requirement for transparency on climate action.



Nurture a culture of sustainability

A culture of sustainability is essential for employees to take the sustainability mission seriously in every business decision they make.

Most Australian corporate leaders agree they have a strong culture of environmental sustainability within their company and that employees are aware of sustainability efforts. But awareness needs to be transformed into clear, actionable guidance to become a true culture of sustainability. Australia is lacking in this regard, as it is less inclined than the global average to have established codes of conduct for positive environmental behaviours, as well as the lack of incentives for employees to take personal action.

The fact is, the entire workforce needs to share responsibility for realising sustainability goals and be motivated to meet them. While sustainability ambassadors are vital, it will take a wide array of people in the organisation to build, share and monitor baselines, targets and plans.



Get your data analytics in place

Compared with the rest of the world, Australian businesses give the least weight to data analysis, reporting and performance management as essential components when implementing sustainability strategies. However, data and analytics are a logical starting point for businesses to improve their strategic outlook.

We worked with Orica, a leading mining and infrastructure solutions provider with global manufacturing capability, to create a digital platform that shows real-time reporting of its greenhouse gas emissions.

The platform is expected to capture and curate Orica's emissions data to track its emissions and the origination of Australian carbon credit units as part of the company's commitment to decarbonise its own operations, as well as supporting the world's transition to net zero.

By identifying, benchmarking and measuring their own performance internally and externally (suppliers, communities, customers, etc.), as well as within the industry, Australian businesses will be well-equipped to track and improve their sustainability performance.

Five keys to Deep Green leadership in Australia

To move toward better sustainability practice, we have five recommendations for Australian businesses to get on the path to real action on sustainability.





1 Get started

Don't wait for new laws to come into effect to elevate your sustainability strategy. Now is the time to build momentum – by doing so, you'll be in a better position to deliver results and save on costs or penalties for late action.

Globally, sustainability has captured the hearts, minds and wallets of senior leaders, and even now, businesses are breaking out of their comfort zones to collaborate with partners, suppliers, distributors and even competitors to advance the sustainability agenda.

As one survey respondent said, "This is not a nice-to-have; this is a must-have, and this is table stakes to even be included in our RFP or a tender."



2 Become a fast follower

While Australian businesses are lagging behind the global average in several areas, they can catch up quickly by adopting the best practices that leaders have demonstrated. It is a good time to move quickly toward real outcomes by adopting what works and avoiding the pitfalls.

3 Elevate sustainability roles

Real results are achievable when sustainability leaders who are responsible for results also have the power to make strategic decisions. Businesses need to elevate the organisational power of the CSO (or equivalent head of sustainability) and give them the ability to set standards and practices that the organisation needs to adhere to. Solving the funding concerns can follow when these changes are made at the strategic leadership level.

The CSO should work closely with the CIO and COO to plan for enterprise-wide transformation that embeds sustainability into all areas of business measurement and reporting.





4 Pursue green capital

There is a big push for green bonds and sustainability-linked loans in the finance world. It's possible for some organisations to use data analysis as a way to access highly competitive capital for sustainability investments.

For example, in our work with Orica, the company is now charting its progress against key performance indicators of sustainability aligned with public commitments. Its performance against agreed upon target milestones will be rewarded with discounts on the loan margin, and underperformance is penalised with a higher loan margin.



5 Boost your data maturity

We cannot change what we don't measure. Organisations need to investigate data capture and analysis platforms to truly understand their environmental impact.

Many businesses have under-invested in building the data foundation to understand their real environmental impacts and effectively manage them. Beyond tracking single impacts, like carbon emissions, they also need to account for impacts on biodiversity, water usage, habitat and other natural resources. This means augmenting their sustainability strategy with a data strategy that tracks several impacts and provides dashboards customised to different user groups.

With a solid data and advanced analytics foundation in place, combined with other increasingly sophisticated and mature technology capabilities, Australian businesses will have the tools to break through the walls of their organisations to see and shape environmental impacts, mitigate risk and discover new opportunities throughout the value chain.

A Deep Green future for every business

A Deep Green future for every business

Businesses in Australia are seeking a path forward to meet both economic and environmental needs. We feel sure they will find that path. Driven by ingenuity, a collaborative spirit and the courage to change, business leaders will meet the call for radical transparency, authenticity and resilience, in tune with the prevailing winds of change.

It won't be long before the ideas of "sustainability" and "business" become one and the same, as the two become intertwined in a deeply green world.



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Jonathan joined Cognizant in April 2021. Prior to Cognizant he was a Managing Director with Accenture and a Partner at KPMG; where he was also a member of the firm's Energy &

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