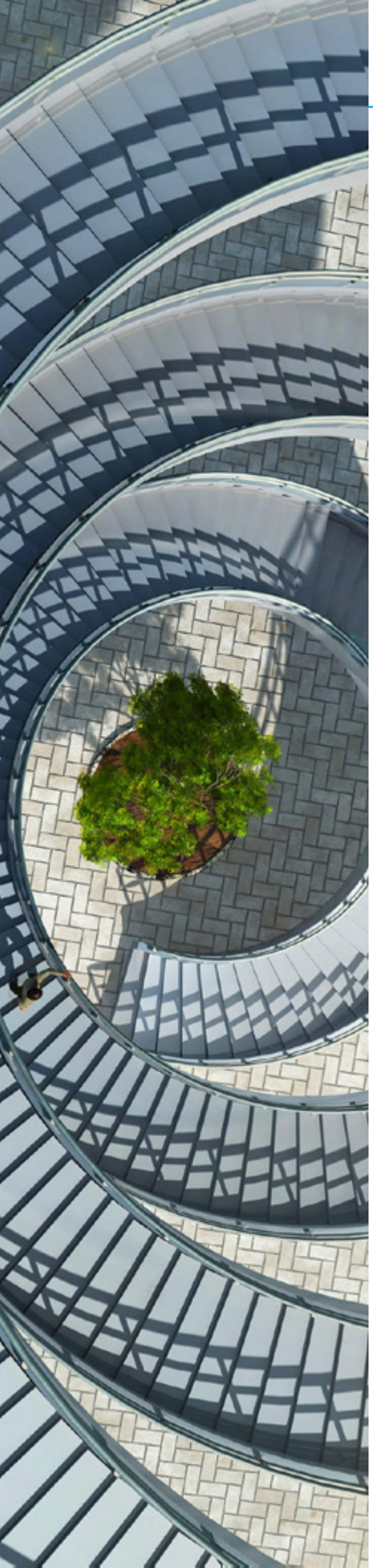
2024 Net Zero Report

ALIGNING CORPORATE VISION WITH DECARBONIZATION REALITIES

ENGIE Impact



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EXECUTIVE SUMMARY: THE NEED FOR A TRANSFORMATIVE APPROACH TO DECARBONIZATION

Decarbonization is the most significant change management issue facing organizations today, yet their Net Zero programs are rarely approached as the whole-business transformations they need to be to achieve real progress. Instead, decarbonization programs are too often treated as discrete, local, temporary initiatives — sitting in silos, and with limited impact on overall corporate goals. They are, therefore, systematically under-resourced, not given sufficient priority within the organization, and are unable to foster long-term impact.

> **2024 marks a critical point in the decarbonization journey for many organizations — fast approaching the halfway point in a decade where expectations are high to demonstrate significant decarbonization progress.**

But despite best intentions, organizations with a disjointed decarbonization approach have not made sufficient progress over the first half of this decade to suggest they will meet their medium-term (2030) or long-term (2050) decarbonization targets.

According to our research, two-thirds (66%) of organizations say they have some form of public carbon reduction commitment today, but only one-fifth (20%) say they are meeting or exceeding their goals. Ongoing reporting by Net Zero Tracker, an open-source database hosted by non-profit organization The New Climate Institute, reinforces this. They found that among the world's largest 2,000 companies by revenue, just 2% had a detailed plan on how the organization will achieve its Net Zero goals. A further 28% have published a plan that was deemed incomplete.

In this fourth installment of our annual Net Zero Report, we are able to see some positive year-over-year trends. The share of companies self-reporting their sustainability programs as either "extremely" or "considerably" successful has significantly increased from a combined total of 28% in 2020 to 68% today. Additionally, half of companies (52%) say they are already making fundamental changes to their business model to achieve long-term decarbonization commitments.

However, a majority of companies acknowledge there is still significant work ahead of them — saying they still need "significant change" or "complete transformation" of some fundamental business practices including technology and data, sourcing and supply chain, employee skillsets, and even the products and services they offer in order to reach their long-term decarbonization commitments.

In the 1990s and early 2000s, companies that used the emergence of the internet and the digital ecosystem as an opportunity for introspection and reassessment of their business fundamentals were able to weather the changes — and even thrive — while those who failed to do so lagged behind their competitors, or in some cases went bankrupt.

The parallels to the decarbonization needs of today are clear, and those organizations that are leading the way are seeing the benefits of:

- **A stronger corporate reputation.**
- **A more engaged and loyal customer and talent base.**
- **Preferential access to private capital or government funding.**
- **Improved financial performance.**

Companies need to change how they approach decarbonization. Just as the advancements of internet and digital technologies over the past few decades changed nearly every aspect of how all organizations conduct business, so too is decarbonization transforming how organizations operate and engage with their customers, employees, and suppliers. The decarbonization revolution will be just as disruptive — if not more so — and organizations must move forward knowing the impact of decarbonization is transformative, touching every part of an organization from its strategy and finance to its operations, technology, data, and more.

What is a holistic approach?

A holistic approach to corporate decarbonization is one that recognizes both the scale and breadth of the organizational effort required to successfully deliver long-term carbon-reduction outcomes.

A holistic approach starts with an understanding that decarbonization runs much deeper than a corporate project with a definitive start and end date — limited in scope to factories, suppliers, or corporate offices. It requires organizations to acknowledge the complexity of the challenge and its transformative potential.

Executives who embrace a holistic approach do so knowing it necessitates a fundamental reassessment of how their business functions, and a focused effort to change both actions and mindsets throughout the organization.

A holistic approach must include top-down champions, bottom-up leadership, cross-functional buy-in, and genuine introspection about overall business models.

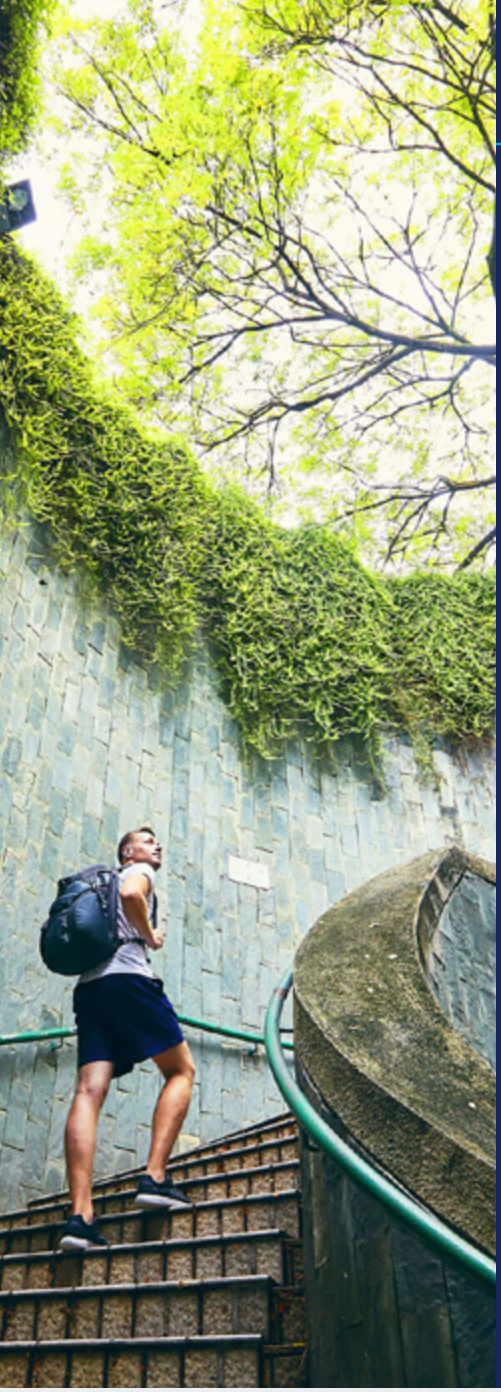
Five decarbonization roadblocks

Like any complex change management within an organization, decarbonization involves many layers. It is not a straightforward undertaking. It requires the careful marrying of specialist decarbonization expertise with organizational transformation capabilities — all driven by executive leadership and vision.

The participants in our research highlight five core roadblocks inhibiting holistic decarbonization execution:

1. **Too many other business priorities and a lack of executive focus**
2. **Internal governance bottlenecks that slow decision-making and execution**
3. **Budget constraints that limit the speed of execution**
4. **Limited data and technology to measure and report progress**
5. **Lack of internal skillsets to execute change at pace and scale**

These barriers are cross-functional, inter-departmental, and can't be solved by one group or team alone. Nor can they be overcome by making minor adjustments to the status quo. Overcoming these barriers requires a holistic approach.



From roadblocks to benefits: the rationale for a holistic approach

Fortunately, approaching decarbonization as a whole business transformation is the most effective way to address each of the five inhibitors of decarbonization progress.

With a holistic approach, these roadblocks can be turned from inhibitors to benefits, providing:

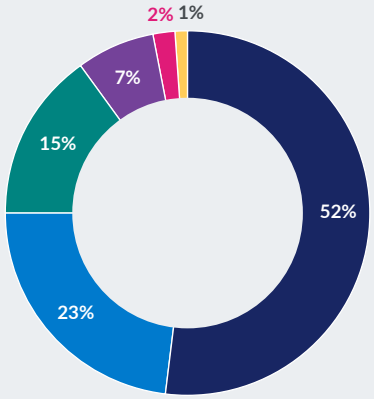
1. Clarity of prioritization and focus
2. Effective internal governance
3. Additional financing options
4. Integrated decarbonization data
5. Extensive executional resources

The indications from our research are encouraging, with corporate leaders saying they are open to change. Just over half (52%) say they are willing to make fundamental changes to their business model to achieve long-term decarbonization commitments (Figure 1). Another 23% are willing to as long as it doesn't negatively impact profitability.

Key findings from our 2024 research and expert insights from across ENGIE Impact's global network give a perspective on how a holistic decarbonization approach can unlock each of these five benefits for your organization.

Figure 1

Is your organization willing to make fundamental changes to its business model in order to achieve long-term decarbonization commitments?



- **Yes:** We are already working towards this
- **Yes:** As long as this doesn't negatively impact profitability
- **Maybe:** We need to do further analysis to understand the impact of this
- **Maybe:** We are waiting to assess market trends or other external factors
- **No:** We don't believe this is required
- **No:** We are not prepared to consider this

DECARBONIZATION IN 2024: SNAPSHOT

Most organizations have clear decarbonization goals for 2050 and many organizations have interim targets to hit by the end of this decade. For their decarbonization ambitions to remain credible in the eyes of investors, employees, customers, and other stakeholder groups, these organizations find themselves under pressure to deliver tangible progress quickly. They cannot wait to begin to make headway. Instead, now is the time to accelerate decarbonization efforts.

This is the context against which ENGIE Impact has conducted its fourth annual Net Zero survey. This year's research takes the pulse of decarbonization preparedness and progress across hundreds of global organizations. We surveyed leaders on how they were feeling about their decarbonization progress and the roadblocks impeding their efforts.

> **This year ENGIE Impact's research finds that, although public commitments to decarbonization remain unwavering, there is clear acknowledgement of the transformational work that still needs to be done.**

Despite their good intentions and confidence in their progress to date, many organizations are beginning to understand the full breadth of the challenge ahead and still face many decarbonization roadblocks — including underinvestment in decarbonization activities, a lack of internal skills, and insufficient organizational focus.

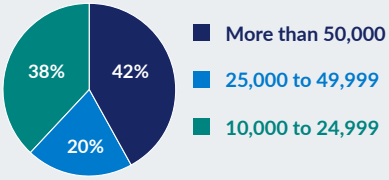
Many organizations tell us they still take a siloed approach to decarbonization, treating it just like any other corporate initiative. As a result, they are failing to realize the benefits that come from taking a more holistic organizational approach to decarbonization.

ENGIE Impact's global research paints a clear picture of the current state of decarbonization progress and the work still to be done.

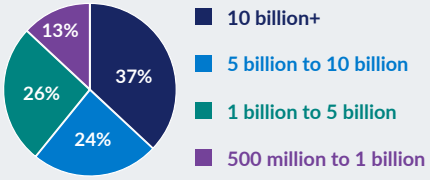
Survey demographics

Reponses from over 20 countries:

Responses by number of employees:



Responses by annual revenue:



First, the positive news from our research:

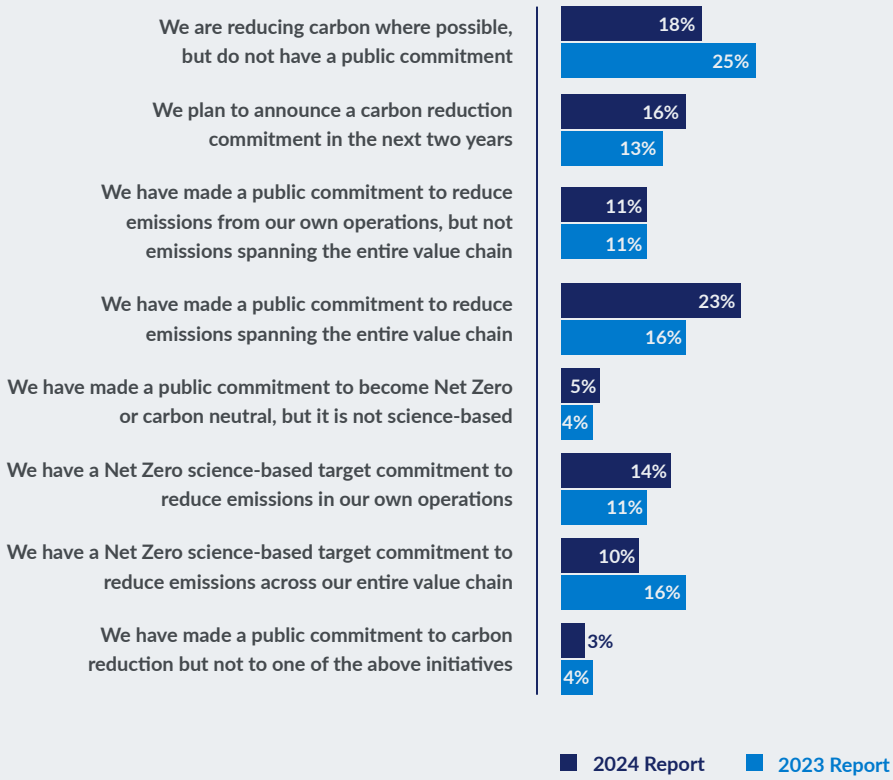
- **Organizations remain committed to decarbonization.** Two-thirds (66%) of organizations say they have some form of public carbon reduction commitment today, up from 63% last year. A further 16% expect to announce a public carbon reduction within the next two years (Figure 2).
- **The idea that sustainability drives competitive advantage is now mainstream.** Three-quarters (76%) of organizations believe that having a leading sustainability strategy and execution capabilities will drive competitive advantage for their organization. This is up from 70% last year.

76%

of organizations believe that having leading sustainability strategy and execution capabilities will drive competitive advantage for their organization

Figure 2

Which one of the following best describes your organization's current commitment to carbon reduction?



However, the research highlights causes for concern:

- **Organizations risk over confidence about their decarbonization progress.** Our past four years of research has reinforced that more companies are viewing their decarbonization programs in the context of industry competitors. In 2020, only about one-third saw themselves as having made further progress than competitors. Today, it's more than two-thirds (67.5%). This is up from 50% last year (Figure 3). However, there is a risk that organizational complacency will lead to potential decarbonization blind spots, with many organizations falsely believing they are better positioned to meet their carbon reduction targets than they actually are.

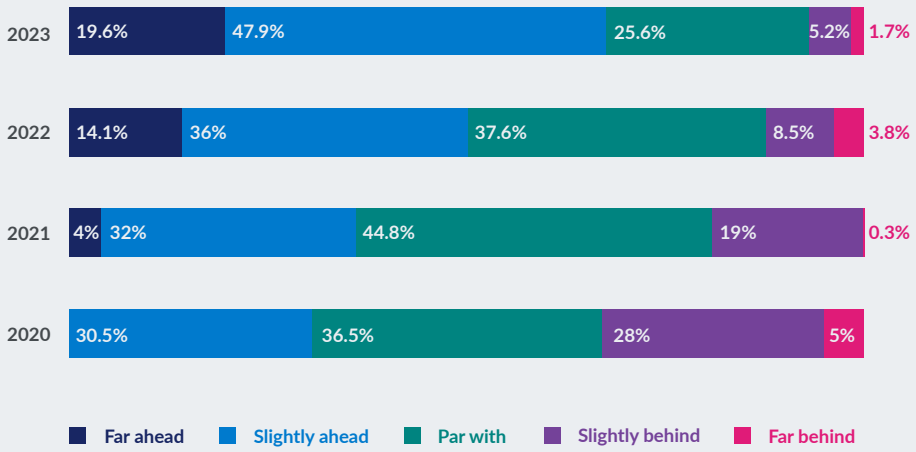
- **Economic pressures may cause decarbonization momentum to slow.** Organizations raise concerns about being able to fund decarbonization in a difficult economic climate at a period when cost control and profitability are under greater scrutiny. Over half (52%) of organizations agree that if economic conditions continue to worsen in the future they are likely to reduce investment in decarbonization activities.

52%

of organizations agree that if economic conditions continue to worsen throughout 2024 then they are likely to reduce investment in decarbonization activities

Figure 3

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



A failure to take a holistic approach to decarbonization is the root cause of many of the roadblocks faced by organizations today, and is limiting their progress.

Decarbonization is still not given the appropriate level of organizational focus.

More than a third of respondents (35%) say their organization's board takes a hands-off approach to decarbonization, saying the leadership considers decarbonization as a low priority or their only involvement is to review and sign-off strategy developed elsewhere in the organization. Without the right level of executive direction, influence, and authority, organizations are not sufficiently prioritizing decarbonization action across the organization.

Organizations are taking too narrow a perspective on decarbonization strategy.

One in five organizations recognize their current business model is not compatible with their long-term decarbonization commitments, but too many organizations still view decarbonization only through a risk management or compliance lens. They haven't made the positive business case for decarbonization investment. Many more have yet to realize that decarbonization is intrinsically linked to how their organization operates today and will do so in future.

Organizations are still missing a single source of truth on decarbonization data.

Less than half (40%) of organizations say they have a single source of truth for decarbonization data in their organization. Without a reliable understanding of their starting point based on robust data, organizations cannot properly direct resources to decarbonization activity for maximized impact.

Decarbonization strategy and execution are insufficiently aligned.

Our research shows organizations still favor a centralized model to manage decarbonization in their business. 47% say they now have a global, centralized sustainability team that coordinates and drives action centrally, up from 42% in 2023 — a positive step toward aligning strategy, execution, and ongoing management.

THE BENEFITS OF ALIGNING CORPORATE VISION WITH DECARBONIZATION REALITIES

Treating each barrier to decarbonization progress as a disconnected, independent challenge will lead to disconnected, inefficient solutions. Decarbonization challenges are business challenges, which also means that decarbonization solutions will not only address the short- and long-term carbon-reduction commitments, but bolster the whole business. The following sections of the 2024 Net Zero Report will highlight each benefit, and explore how a holistic approach to decarbonization provides holistic corporate solutions.

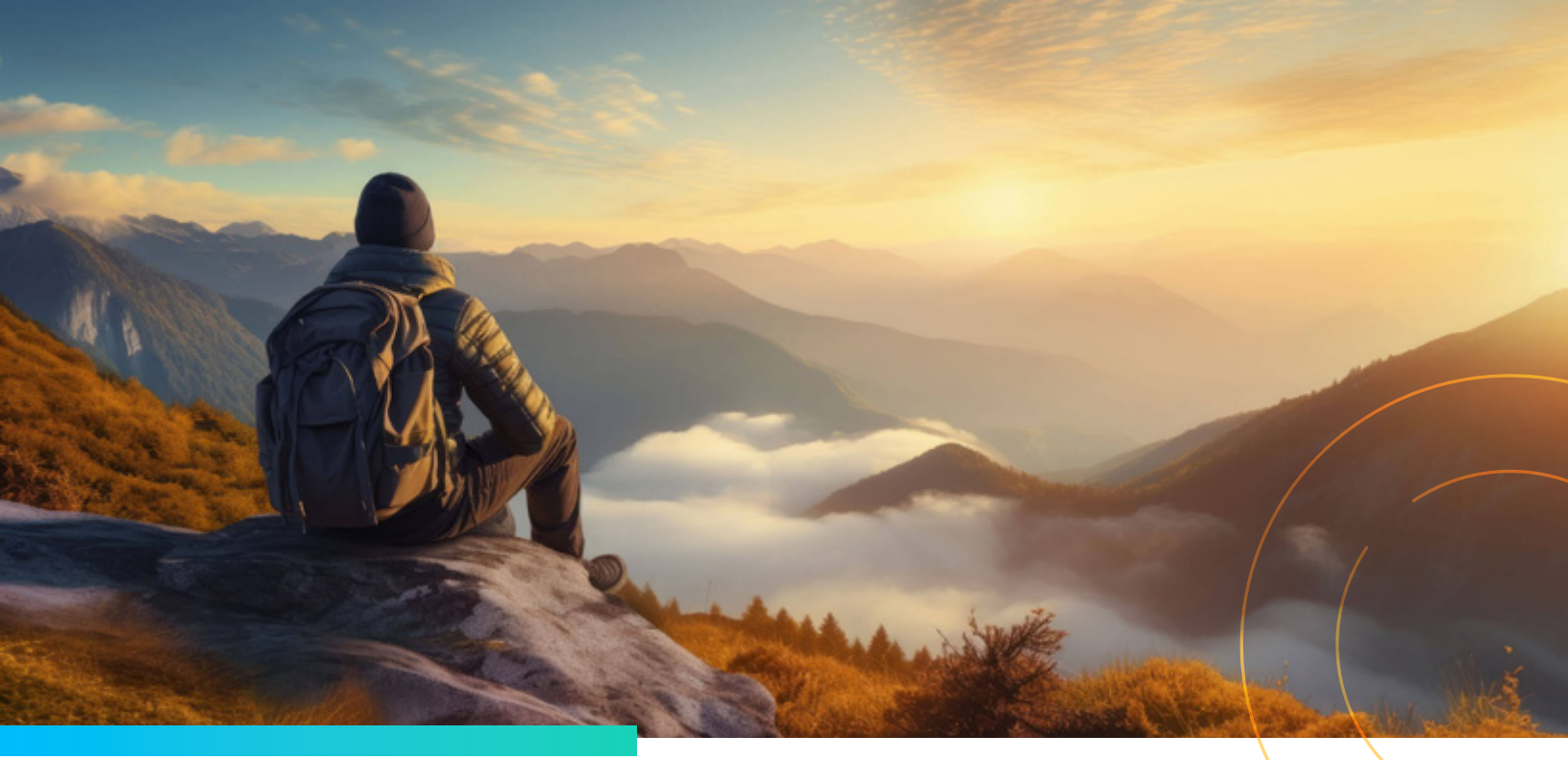
Clarity of prioritization and focus

Effective internal governance

Extensive executional resources

Additional financing options

Integrated decarbonization data



ESTABLISHING CLARITY OF PRIORITIZATION AND FOCUS

In recent years, decarbonization has been intrinsically linked in the mind of many executives with the twin issues of rising energy costs and security of energy supply. Their focus has been on navigating a way through a period of unexpected volatility while minimizing the impact of rising energy prices on corporate profitability.

While this macroeconomic context has sharpened focus on the benefits of reducing reliance on carbon-intensive business models, it has also meant the approaches put in place have often been opportunistic — not necessarily planned to deliver on long-term decarbonization commitments.

The operating reality for 2024 and beyond is that these same organizations still have long-term decarbonization targets to achieve, many of which include interim targets for 2030 or sooner.

Our research shows that two-thirds (66%) of organizations have some form of public carbon-reduction commitment in place today, and by the end of 2025 that should rise to more than 80% of organizations.

But without a holistic approach to decarbonization in place, it will become increasingly difficult to translate these ambitions into action.

> **"The executives and whole management focus on every single thing regarding this matter."**
>
> – Industrials and manufacturing organization, Philippines

Too many priorities, too little focus

Over the last several years of our research, we have found the gap between organizational intent and execution for decarbonization narrowing overall — driven mostly by a few key sectors. Within both the technology, media, and telecoms sector and the industrials and manufacturing sector, we see a small but established cohort of decarbonization pioneers who have made demonstrable progress toward aligning corporate ambition with on-the-ground execution. But the majority of organizations find their efforts impeded by organizational inertia or complexity: too many executive priorities and too little organizational focus on decarbonization.

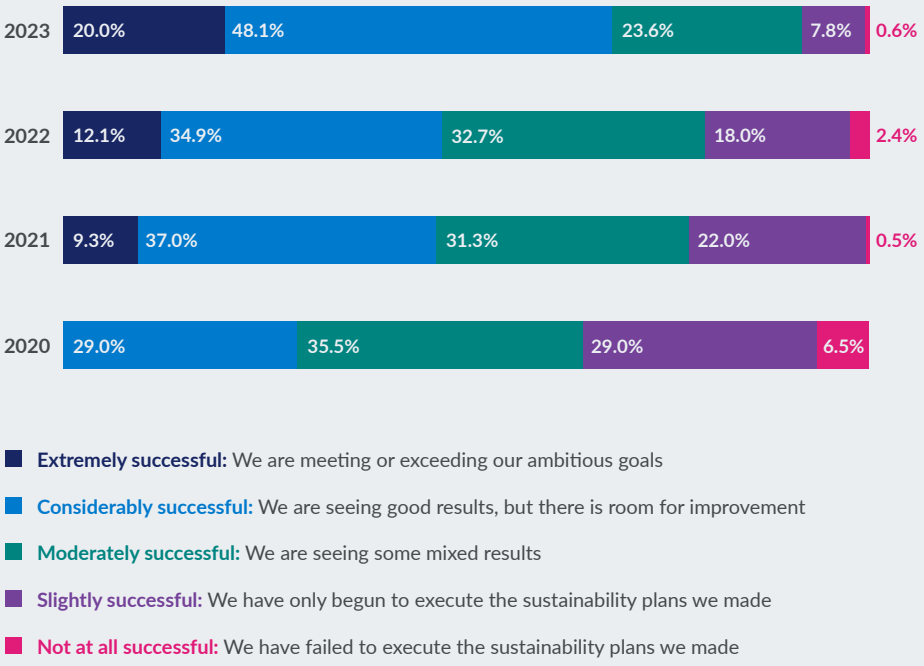
As one CFO at a leading US healthcare organization told us, "We aren't focused on this [decarbonization] matter at all, and if it even comes up it is in the sense that cleaner operations may cost less, be good press, and gain us government funds." Their experience is far from unique.

A third (33%) of the executives surveyed told us that lack of organizational capacity or too many other priorities is among the three biggest inhibitors to implementing decarbonization at speed.

The result of this lack of focus is slow progress. This year, 32% of organizations in our research assessed their decarbonization progress as "moderately successful" or worse (Figure 4). Just one in five (20%) believe their organization is is meeting or exceeding its decarbonization goals. Although this figure is up from 12% last year, it suggests most organizations remain wide of the mark in the execution of their sustainability programs.

Figure 4

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



Business models: fundamental changes on the horizon

This year's research suggests the tide may be beginning to turn as more executives recognize the status quo will not help them achieve their decarbonization targets, and they are beginning to feel the negative repercussions of a lack of focus on decarbonization. Less than four in ten (39%) consider that their organization's business model is highly compatible with achieving their long-term decarbonization goals.

97% **of organizations say they are open to making fundamental changes to their business model to address their decarbonization ambitions.**

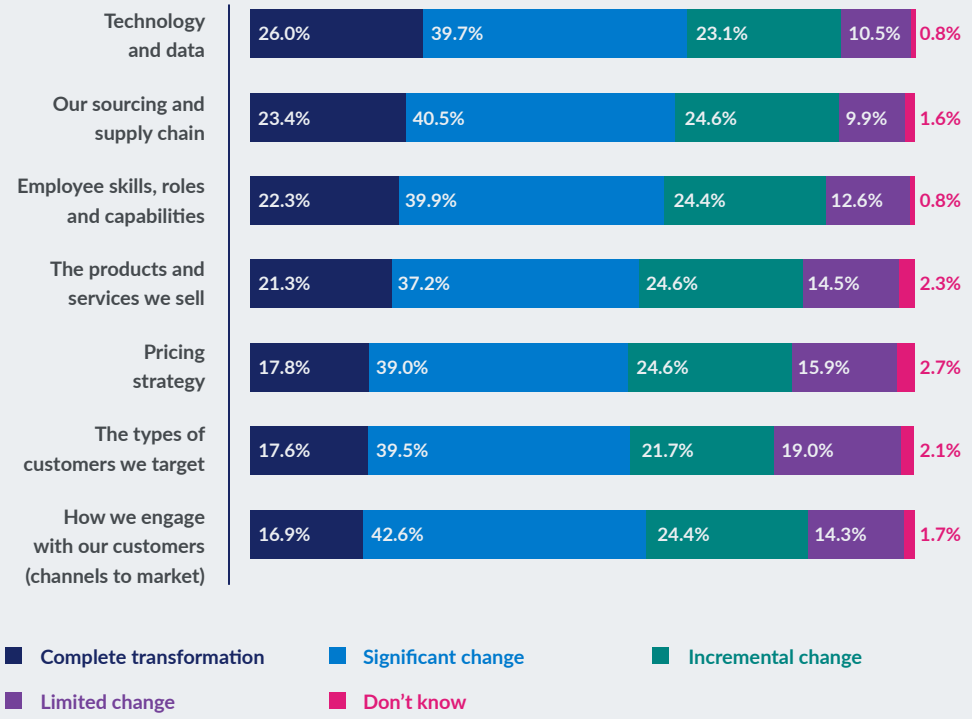
23% would only do so as long as it does not negatively impact their organization's future profitability. A further 22% say they would consider business model changes pending further analysis of the business case or of wider industry trends. Just 3% of executives surveyed said they were not prepared to consider changes to their business model, or that they didn't believe changes were required.

When asked what will be the biggest changes to their business model to meet long-term decarbonization commitments (Figure 5), two-thirds of respondents highlighted technology and data as an area where either complete transformation (26%) or significant change (39.7%) will be required. Other areas were identified as still needing complete transformation or significant change including sourcing and supply chain (63.9%), the products and services they sell (58.5%), and employee skills, roles, and capabilities (62.2%)

The benefit of taking a holistic approach to decarbonization is that changes in each of these areas are mutually reinforcing. For instance, investing in data capabilities can help to give greater clarity and focus to decarbonization priorities for the organization, which in turn gives greater direction on how to reduce Scope 3 emissions.

Figure 5

In which areas are the biggest changes to your organization's business model required to meet your long-term decarbonization commitments?



Clarity of decarbonization prioritization and focus

Most corporate leaders today have decarbonization somewhere on their agenda, yet many are still taking a reactive approach to managing decarbonization in their organization rather than prioritizing a transformational approach. While they may have bought into the vision for long-term carbon reduction, they haven't set the tone or urgency to inspire the organization to move at pace.

> **Decarbonization requires the same clarity of focus and transversal approach that organizations take to solving similarly significant challenges.**

Organizational leaders dedicated to health and safety measures set ambitious targets to reduce workplace accidents and fatalities to zero, and expect each and every employee to adopt a safety-first mindset. Leaders lend their full weight and focus to achieving those objectives across the organization.

There are clear parallels: leaders need to enact a series of goals from the highest levels of the organization, providing clarity around the business rationale. They then have to prioritize the delivery of that objective throughout the organization. Factories, sites, teams, and individuals need to be bought-in to drive the desired level of progress.

Having board-level clarity of focus is critical. At the same time, the people who are going to make the biggest difference are likely to be one or two levels down in the organization, many in operational roles. They need to be empowered and given access to the right resources to deliver the transformation the board expects.

A transformational approach to corporate decarbonization solves one of the major barriers to progress — that there are too many other business priorities. It should be clear to each employee that decarbonization efforts can not be set aside, even temporarily, in the service of some other business objective.

BUILDING EFFECTIVE INTERNAL GOVERNANCE

For many organizations it can too often feel that, despite a collective willingness to meet decarbonization goals, organizational structures get in the way of achieving significant progress.

For example, over a quarter (28%) of respondents surveyed by ENGIE Impact say slow decision-making about decarbonization within functional teams is one of the three biggest barriers to implementing decarbonization at speed within their organization.

A further 26% cite a lack of means to resolve conflicting cross-functional decarbonization priorities as a major inhibitor of progress.

Lack of expected progress — even among organizations with clear targets and a well-considered decarbonization roadmap — is often a symptom of poor internal governance and a lack of alignment between decarbonization strategy and execution.

> **"As a company we are accelerating the shift to renewables, developing new product offerings, relocating facilities, investing in carbon capture and optimizing tax credits."**
>
> **– Healthcare organization, US**

Blueprints for effective governance

Approaching decarbonization through the lens of a whole-business transformation is an effective way to rethink what effective governance for decarbonization looks like in practice. Our research reveals that a centralized governance model is becoming increasingly popular: 47.5% of organizations now say they have a centralized sustainability team that coordinates and drives execution for decarbonization, up from 41.8% last year (Figure 6). This is the most common governance model adopted across all three regions (EMEA, APAC, and the Americas). It is also particularly popular among both retail and technology businesses, with 50% and 58% respectively favoring this approach.

The next most common governance model is a functional-driven approach, whereby functional leaders are responsible for driving decarbonization execution within the areas of the organization for which they are accountable. This approach is taken by 25.6% of organizations in our survey. About 18% have adopted a localized approach, whereby country or regional leaders drive execution. And 8.5% leave accountability for decarbonization execution to the facility or site level.

Figure 6

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

No single governance model is necessarily more preferrable than any other. Each organization needs to decide what works best for their culture and ways of working. What matters most for decarbonization success is that the governance blueprint is clear and there is close alignment between where the budget, resources, and accountability for decarbonization execution sits — and where the power in the organization resides to influence and implement the changes to achieve this.

For example, if a global automotive manufacturer sets decarbonization targets centrally, and then gives each business unit head responsibility for achieving those targets within their own area of the business, then it is critical not only that the business unit head has access to appropriate budget and resources to deliver on these targets but has the power and influence to mandate necessary changes within their part of the business. Too often decarbonization implementation fails due to lack of alignment on these vital components.

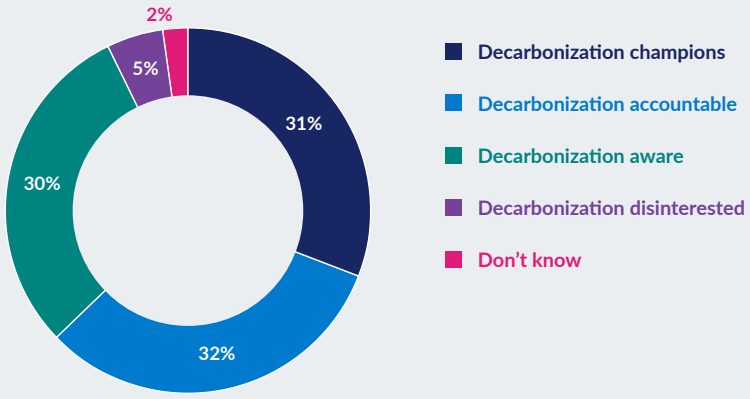
Starting with an engaged board

Regardless of which governance blueprint is the right one for your organization, effective decarbonization governance depends on an engaged board and senior executive team. While decarbonization has undoubtedly risen in importance as a board-level agenda since the beginning of this decade, it is important that the executive teams do not merely pay lip service to the issue. For a transformational approach to gain momentum, leaders need to show there is board-level backing for the approach.

Among organizations surveyed by ENGIE Impact, just 5% say their board is "decarbonization disinterested," where decarbonization is not at all on the board's list of priorities (Figure 7). Just a third of executives (31%) describe their board as "decarbonization champions", who actively promote the benefits of a holistic decarbonization approach. The majority of respondents sit somewhere in the middle of this spectrum, with their board being aware of, or accountable to, the decarbonization efforts that are being developed elsewhere in the organization.

Figure 7

What role does your organization's executive board play in the development of your decarbonization strategy?



Embracing the whole organization, cross-functional approach

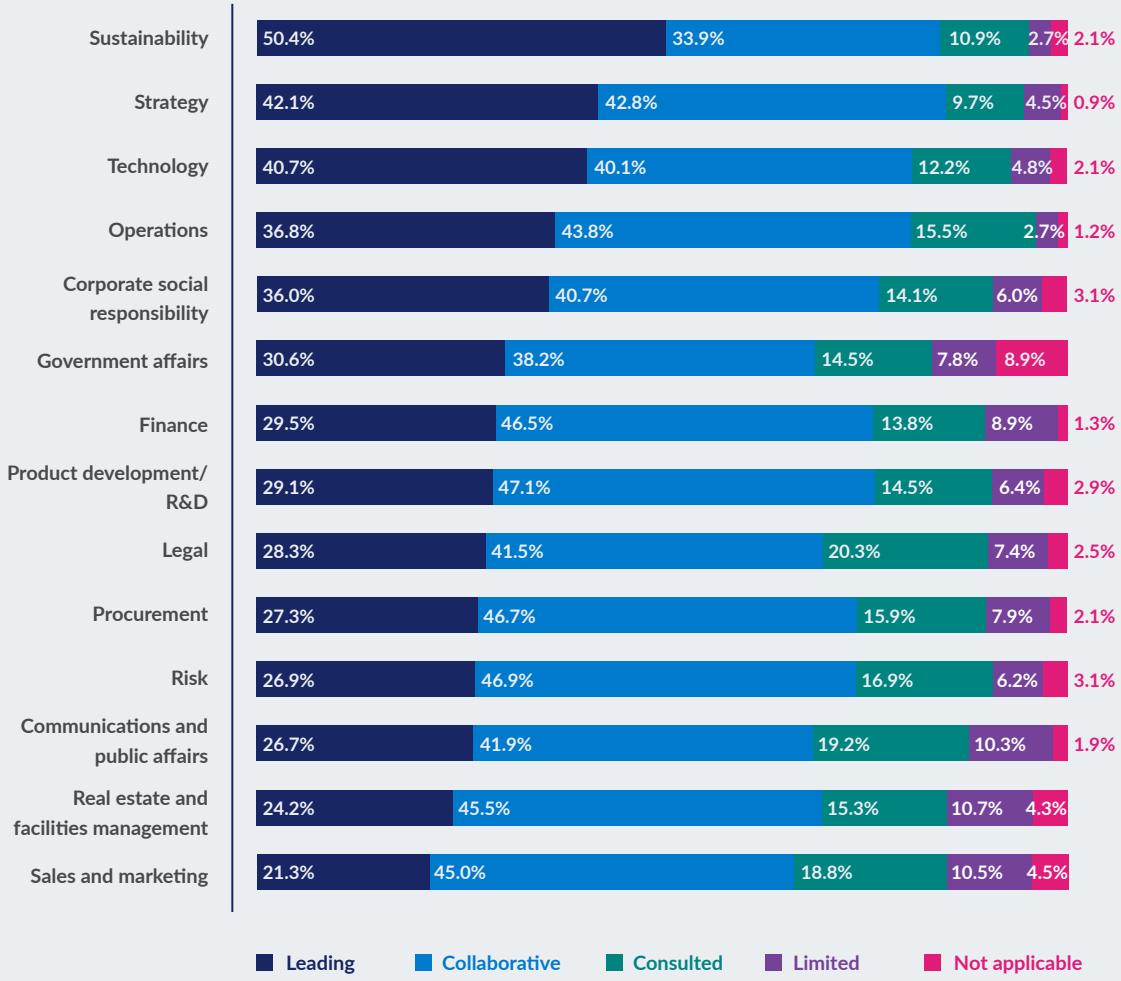
There are clear signals in our research that organizations are beginning to understand that, even with a centralized governance model, decarbonization strategy and execution cannot sit within a silo. It must involve as broad a group of stakeholders across different functions within the organization as possible.

When asked which departments play an active role in shaping decarbonization strategy, it is encouraging to see that respondents to our survey cite a wide range of functional areas as either "leading" or playing a "collaborative" role in developing a decarbonization approach (Figure 8). These include not only sustainability specialist roles (a combined 84.3%), but also strategy (84.9%), technology (80.8%), operations (80.6%), and finance (76%).

With so many functional areas contributing to decarbonization efforts it is important that governance structures facilitate, rather than impede, the cross-fertilization of good ideas in any organization. For decarbonization governance to be smooth and effective it must allow functional or facility leaders to access internal knowledge and sustainability expertise and best practices, while also giving them the autonomy and resources to execute locally in a way that meets their own challenges and priorities.

Figure 8

What role do the following functional areas play in shaping your organization's decarbonization strategy?



Effective internal governance for decarbonization

One of the critical questions organizations often struggle with is who has the appropriate authority, influence, and access to resources to lead the sustainability charge most effectively. Rather than spend sufficient time reflecting on the answer to this question, the default approach adopted by many organizations is a centralized corporate project — increasingly led by a Chief Sustainability Officer (CSO).

While this relatively new role of the CSO has the potential to deliver significant impact over time, even organizations with an experienced CSO in place today often find their governance structures are not well aligned to execute decarbonization at pace. This is because the governance and change management systems companies have used in the past are almost always insufficient for integrating an effective corporate decarbonization program.

Decarbonization leaders — both in title and in passion — understand the significance of the organizational transformation at hand. Updating governance around decarbonization requires meaningful organizational leverage, and a bigger view of how decarbonization goals align with wider corporate strategic priorities.

A holistic viewpoint is integral to effective decarbonization governance.

> **We encourage our clients who approach decarbonization investment at a site or factory level to take a bigger view about what synergies can be found — coordinating efforts more effectively by looking horizontally across the organization and not just within silos of expertise.**

For example, every site may have access to its own decarbonization budget and its own carbon reduction targets, but if this activity happens in silos with no cross-organization coordination, then opportunities to accelerate decarbonization through smarter and collaborative deployment of resources may be missed.

There may be fundamental disconnects between the areas where you want to achieve impact, and who has the ability and resources to deliver this impact. There may be lack of clarity around who is empowered to act or around accountability. Organizational leaders must map out the areas of impact on their decarbonization roadmap in terms of levels of power, influence, and resources — potentially reinventing existing governance to embrace a whole-business approach.

ACCESSING ADDITIONAL FINANCING OPTIONS

Executive focus and effective decarbonization governance will not produce the desired results if organizations don't develop a financing strategy to adequately fund their decarbonization activities. Unless decarbonization is approached as a whole-business transformation, it can suffer from being under-resourced.

Historically, organizations have felt most comfortable funding small-scale pilot projects or specific decarbonization initiatives at a site or facility. They may not be planning for the type of transformation that is needed to achieve meaningful long-term carbon reduction goals.

Constraints on budget and financial investment emerge in our research this year as the biggest barrier for organizations to implement decarbonization initiatives at speed (Figure 9), with 34% of respondents identifying this as one of the their three most significant inhibitors.

This reflects the results from our 2023 Net Zero Report, where lack of funding also emerged as the most significant barrier to decarbonization.

Executives therefore need to wake up to the idea that, alongside a step-change in prioritization and governance, they need to embrace a new approach to funding decarbonization across their organization.

> "Being more sustainable boosts our reputation and our ability to get access to related funds. It acts as a snowball effect."
>
> – Education organization, USA

Figure 9

Which of the following are the three biggest inhibitors of implementing decarbonization initiatives at speed within your organization?

Avoiding the trap of short-term thinking

Our research shows not only are constraints on budget a major decarbonization roadblock for many organizations, budget pressures may get more challenging in the short-term. This is the case even when more attention is being paid to whether organizations will be able to meet their interim decarbonization targets.

52% **Over half of decision-markers surveyed by ENGIE Impact say if economic conditions worsen, their organization is likely to reduce its investment in decarbonization activities.**

The pressure is felt most intensely within the APAC region where 58% say they are likely to cut resources to decarbonization in a more challenged economic climate. Across the Americas, the figure is 47% and is 52% for EMEA.

Short-term economic decision-making risks exacerbating the disconnect between decarbonization ambition and execution in the coming years because the need to reduce carbon is not going away.

Yet the results of our research belie a deeper truth: executives still think about decarbonization as a discrete set of initiatives with start and end dates, whose funding can be scaled up or back depending on the economic cycle and the relative importance of other organizational priorities. This thinking needs to be turned on its head with decarbonization funding positioned as critical — not only for meeting environmental commitments but also for ensuring the viability of the organization's future business and operating model.

The business case for a portfolio approach to decarbonization investment

Reframing economic decision-making for decarbonization away from an initiative-led approach to a whole-business transformation therefore requires a new way to think about the business case for decarbonization funding.

> **As one executive at a US industrials and manufacturing organization surveyed in our research neatly summarizes, "Profit is still king, but CSR/ESG initiatives are gaining momentum as a number two."**

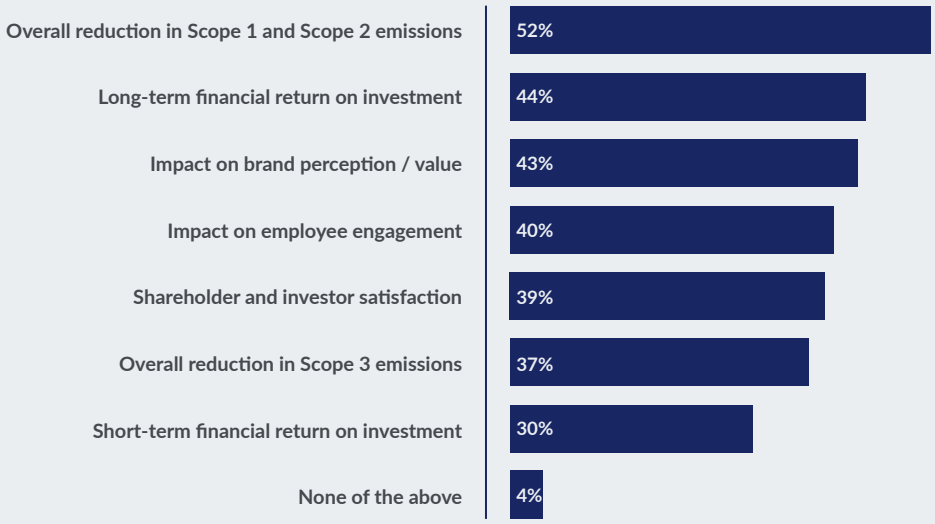
Rather than thinking about funding discrete projects or initiatives, finance decision-makers should think about funding a portfolio of carbon reduction activities with multiple, mutually reinforcing benefits.

For example, an investment in an onsite renewable energy program across multiple facilities will deliver environmental benefits through cleaner energy and lower carbon output, potential economic benefits through a reduction in energy costs, and risk mitigation benefits in diversifying sources of energy supply. It will also have a direct impact on the speed at which an organization can achieve Scope 2 emissions reduction targets.

Evaluating the business case for such an investment requires organizations to think more broadly about how they define the business case for investment and then measure that success. Just over half of organizations today (52%) say they look at reduction in Scope 1 and 2 when evaluating the success of their decarbonization activities (Figure 10).

Figure 10

What metrics does your organization use to measure the success of its decarbonization initiatives?



Embracing new forms of funding

Even taking a portfolio approach to decarbonization investment, organizations need to face economic realities. It is likely that 2024 will see a further slowing of GDP growth within both developed and emerging economies. The International Monetary Fund (IMF) estimates global growth of 2.9% even with a steady decline in inflation following record highs during the previous 18 months. Even organizations with heathy balance sheets and strong cash reserves may not feel confident in their ability to fully fund decarbonization activities from their own budgets.

The good news is that as demand for green funding is increasing, so too is the supply of alternative fundings models. Lenders are facing their own pressures to diversify their activities into more ESG-related lending thus increasing access to fundings for Net Zero programs.

In addition to traditional sources of capital, many organizations are embracing energy-as-a-service (EaaS) contracts, which open up access to additional sources of potentially off-balance sheet funding for decarbonization projects. These contracts, often 10 to 15 years long, also shift the burden of implementation away from in-house teams to specialist external partners.

Additional decarbonization financing options

A majority of organizations have made progress in setting ambitious decarbonization goals, and many have also developed clear implementation roadmaps detailing how those goals can be achieved. One of the main reasons implementation is slow is the lack of alignment between decarbonization planning and decarbonization funding.

We know many organizations are now grappling with the question of how they are going to find the budget to pay for expensive but necessary decarbonization investments. Greater education about the funding landscape is needed. Organizations need to deepen their levels of awareness and understanding across the C-Suite of the different sustainable finance products available and the benefits of utilizing third-party financing.

It is easy for sustainability projects to be seen as an add-on or a nice-to-have. In the current high interest rates environment, the cost of borrowing is high and so traditional finance options may appear much less attractive. Yet at the same time, corporates should take advantage of the fact that many lenders are focusing on their own Scope 3 targets, and are motivated to lend money to companies making efforts to reduce their emissions.

> **Significant capital is available in the form of green bonds or Net Zero transition loans. Finance leaders need to make sure they are also exploring innovative third-party financing that allow them to pursue a portfolio of green investments at scale.**

Finance function leaders and sustainability experts need to come together to consider these issues holistically. This important dynamic between the Chief Financial Officer and Chief Sustainability Officer will come into greater focus in the future as the finance function is being asked to publicly disclose more sustainability-related information. This is forcing the finance function into a more central decarbonization role than we have seen before, and that in turn is going to accelerate the need for the finance function to be more involved at the outset of decarbonization planning. All of this reinforces the need for decarbonization to be treated holistically, ensuring up-front alignment between financing and execution.

INTEGRATING DECARBONIZATION DATA AND MEASUREMENT

Data is one of the most effective catalysts for bringing about a holistic approach to decarbonization. Our research shows organizations with the most advanced data and technology capabilities tend to be further ahead in their decarbonization journey and are more confident in their ability to prioritize the activities that will deliver meaningful progress toward their interim decarbonization targets.

Despite the importance of robust and reliable data to decarbonization, lack of data remains a core roadblock for many organizations.

28% **More than a quarter of executives place lack of data within their top three barriers for implementing decarbonization at pace within their organization.**

Poor or absent data is the fourth most frequently cited barrier by organizations surveyed by ENGIE Impact this year, up from eighth place last year. Organizations without even the most basic decarbonization data capabilities are feeling the effects on their rate of progress. If not properly addressed, then the execution roadblocks for these organizations will get worse.

> **"My company set up a specialist team to work together with the audit firm specialists [to decide which] model to use to calculate the carbon emissions."**
>
> – Banking and financial services organization, Malaysia

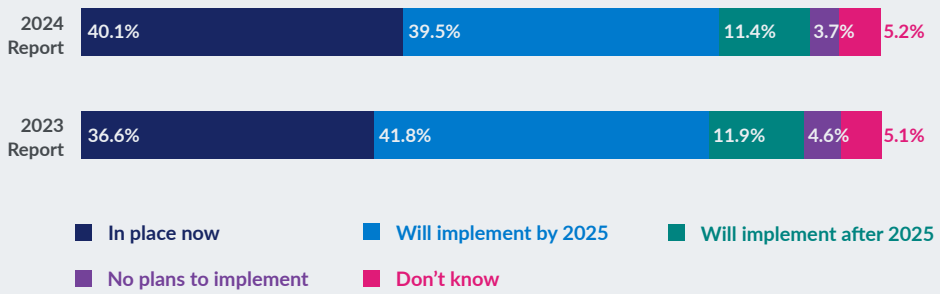
Slow progress toward data maturity

Organizations recognize that improved data capability is an important key that can unlock progress across multiple fronts in the holistic approach to decarbonization. For example, 82% of executives in our research agree that improving data capabilities will help their organization achieve its decarbonization goals faster.

However, despite this recognition of the importance of data, our research shows that progress toward data maturity for many organizations remains slow. Just four in ten (40.1%) say they have a single source of truth for decarbonization data in place across the organization today. TThis remains only slighty higher from 36.6% last year (Figure 11).

Figure 11

Does your organization have a single source of truth for decarbonization data for the whole organization?



While a further 39.5% anticipate implementing enhanced data capability by 2025, the time window for this is quickly narrowing, and the slow rate of progress over the past 12 months calls into question whether organizations are placing sufficient emphasis and investment on improving their decarbonization measurement and reporting capabilities in the short-term.

Focus on what can be measured today

A quarter (26%) of organizations in our survey recognize they need a "complete transformation" of their technology and data to achieve their long-term decarbonization commitments. An additional 40% and 23% say they need a "significant change" and "incremental change" respectively. While the scale of the change around data and technology shouldn't be underestimated, organizations should also focus their efforts on trying to capture a robust assessment of their existing emissions profile however they can.

The starting point is to understand the organization's carbon output across Scope 1, Scope 2, and Scope 3 with sufficient granularity to be able to make an informed decision about where to prioritize their portfolio of decarbonization activities. For example, have all "quick wins" been accomplished or are there still activities that will yield short-term results to convince internal skeptics about the business case for further funding?

> **Only with an accurate picture of where and when carbon output is most intensive can an organization begin to consider the impact of any proposed operational changes.**

There are many ways organizations can then take a positive step forward with the data they currently have. For instance, they can focus on energy efficiency and better management of buildings, processes, and transportation — reducing their overall emissions and energy use, and seeing returns that could be further invested in electrification and renewable solutions.

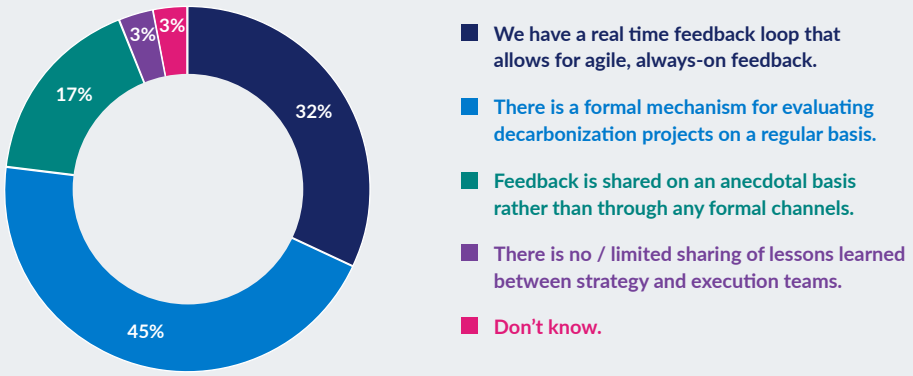
Creating a positive decarbonization feedback loop

With more granular data and reporting at their fingertips, executives can build up a clear evidence base about what is working and where further investment is needed. A third of organizations today (32%) tell us they are benefitting from this kind of real-time feedback loop whereby decarbonization data is being fed back into the organization to inform future strategy and execution priorities (Figure 12).

For more organizations, however, there is still progress to be made as they are relying on anecdotal feedback or limited data to inform their future decision-making.

Figure 12

How are lessons about decarbonization execution fed back to teams developing decarbonization strategy in your organization?



Integrated decarbonization data

Businesses have been exploring energy efficiency gains for years, yet they often don't have their arms properly around the data — making it hard to quantify and get credit for the benefits that have already been achieved. Progress is still progress, even if the ability to measure it has been lacking, but companies will be able to accelerate their efforts and identify even more opportunities for improvement by effectively integrating carbon and resource data into their efforts.

Improved data capabilities generate better informed decarbonization decisions, leading to greater efficiency in accelerating their decarbonization progress. This also allows organizations to be more transparent with their stakeholders about their success and progress toward their goals.

Two primary aspects of decarbonization data strategy are data collection and data quality.

Often, organizations already have data on energy or carbon consumption, but a limited few have access to this information. Those few people may not be talking to each other, let alone collaborating with the broader organization.

> **Smart data collection involves breaking down internal barriers, bringing together those responsible for data collection, and having the necessary conversations to better leverage the data that may already sit somewhere in the organization.**

Organization should also reflect on what data they need in order to help them make decisions about how to improve the carbon efficiency of their business model. In some cases, it may mean starting with energy consumption and waste metrics, and then building out data capabilities from there.

The second area of focus is quality. Many companies have to invest time and resources into cleaning up the quality of their data because it is spread across various vendors or countries, collected in various formats, or even not being collected accurately. By investing greater resources up front to ensure their data is of sufficient quality, it is easier to solve issues down the line. Data processing will be faster. Reporting more streamlined. In some cases, having a robust estimate for emissions may be a good enough starting point in order to plan future decarbonization activity. Not having a perfect data set shouldn't be a blocker to making progress.

Of course, implementing better data practices goes beyond just corporate decarbonization — reinforcing the need to use these efforts to reassess fundamental business practices and ultimately improve data collection and quality across the organization.

DEVELOPING EXTENSIVE EXECUTIONAL RESOURCES

The sentiment of one executive at a Mexican public sector organization neatly summarizes the challenge facing many organizations today: “There is a great commitment, but the implementation is lacking.” Levels of commitment to decarbonization are not matched by the right level of internal skills and capabilities needed to successfully execute these commitments.

> **Our research has already revealed how under-resourcing, lack of focus, and poor executive prioritization can impede an organizational transformation approach to decarbonization.**

The results from our survey show that typically organizations just don’t have sufficient depth and breadth of internal expertise to really grasp the opportunity to decarbonize, despite their willingness to do so.

For example, only 35% of organizations surveyed by ENGIE Impact strongly agree that they have the right organizational capabilities in place today to deliver their decarbonization goals. This suggests that two-thirds of organizations recognize they need to elevate their approach to fill gaps in organizational knowledge or expertise. Similarly, only a third (33%) strongly believe they have adequate resources — people, skills and budget — to deliver their decarbonization plan.

> **“There is a great commitment, but the implementation is lacking.”**
>
> **– Public sector organization, Mexico**

A need for green talent

Many of the organizations that find themselves stuck on their decarbonization journey do so because they have been slow to recruit the right people or upskill existing teams to take on the decarbonization mantle. They are often left with a small but enthused internal team that doesn't have the power, influence, or resources within the organization to effect change.

As a result, 22% of executives surveyed say they need a "complete transformation" of their organization's employee skills, roles, and capabilities to achieve their long-term decarbonization commitments. An additional 40% and 24% say they need a "significant change" and "incremental change" respectively.

In many markets, the demand for green talent is outpacing supply. Talent with both subject matter expertise and the necessary relationship management skills to deliver on decarbonization targets can be hard to attract and retain.

It is vital, therefore, that organizations equip themselves and their people with a base level of understanding about the importance of decarbonization and the range of options available to them to make informed choices about the right carbon reduction path for the whole organization.

A holistic approach to decarbonization will require multifunctional teams to work together in ways they may not have before. It requires decarbonization leads to work with the business unit to develop a decarbonization roadmap fully integrated with short- and long-term goals. The finance function decision-makers must work collaboratively to understand, articulate, and measure the business case for decarbonization investments. Decarbonization and business heads should work together with their data and technology teams to ensure they have access to the right levels of insight as they measure their ongoing carbon-reduction progress.

Exploring implementation partnerships

Organizations will not be able to achieve the ambitious carbon reduction goals they have set themselves without a significant degree of both internal and external collaboration. This requires a mindset shift from working in closed silos to embracing the benefits of open collaboration — working across business units, as well as with supply chain partners and other third-party experts

Demand for specialist talent is outstripping supply. Organizations need to find the right internal partners who can bring not just technical sustainability expertise, but a pragmatic, commercial approach informed by an understanding how to create change in the organization. Successful decarbonization comes from finding the right balance between building in-house capability to manage and oversee the work, while also knowing when to outsource efforts to firms with dedicated experience who can reduce the capacity burden on the organization.

Extensive executional decarbonization resources

Successful decarbonization transformation requires a blend of different skills.

Organizations need people with:

- **Strategic skills to understand the decarbonization landscape and the strategic options available to reduce carbon.**
- **Technical skills to know the organization's production process, how its equipment works, and how solutions can be applied within its operational context.**
- **Operational skills like project management, internal and external communication, and other functional organizations.**

Many parts of a corporate decarbonization program will combine skills from different parts of the organization, having them work in partnership. This range of skills typically exists in many organizations, but they are not deployed and connected in the right way to address the problem at hand. Many organizations are in the early phases of their decarbonization transformation, still trying to figure out what to do. They may have a decarbonization vision, but have little understanding of the right way to build or deploy the organizational capabilities to execute that vision.

For example, implementing new policies around a supplier decarbonization program will require technical knowledge of carbon accounting, as well as input from procurement specialists who understand the organization's approach and policies to working with external suppliers. It will also require an understanding of the cultural changes needed to ensure the program is implemented effectively. It may require incentivizing individuals or teams in different ways, or training or upskilling on the mechanisms for defining a business case.

The solution may involve setting up working groups with relevant team members to tackle specific decarbonization challenges — ensuring there is a diversity of perspectives, experiences, and approaches. These working groups, and the relationships being built through them, should reflect the long-term, holistic nature of the work. This is not a one-off project with an ad hoc steering committee that will be dissolved after a few months. This is a new way of working, aligned with the corporate decarbonization direction.

In some cases, organizations look for effective partnerships with external decarbonization or business transformation experts — for both short-term and long-term support. It will take time, but companies need to transform their headcounts and skillsets to include these diverse capabilities, establish how these employees come together, and accelerate the decarbonization efforts.

10 ACTIONS TO DRIVE HOLISTIC DECARBONIZATION

Decarbonization is, and will continue to be, disruptive.

Companies that separate their decarbonization approach from their overall corporate vision will struggle. Companies that deploy decarbonization solutions in isolation — at one facility, within one team, or as a one-off program — will create more work for themselves. Companies that see individual barriers to progress as independent challenges will also compartmentalize their attempted solutions, missing opportunities for business-wide efficiencies.

> **Corporate decarbonization is not a self-contained initiative companies just need to get through in order to get back to business as usual. Corporate decarbonization is the cornerstone of what will be new ways of working — and organizations acknowledging that reality will be the ones best positioned to lead in the future.**

Taking a holistic approach to decarbonization may sound daunting, but it is necessary. There are smart changes organizations can begin making today to enable a more coordinated and effective approach to decarbonization, accelerating impact, and breaking down internal silos.

1. Create your own sense of urgency.

It may be difficult to motivate employees to achieve a 2040 or 2050 decarbonization target when they have other short-term priorities to address. Organizations should treat their decarbonization journey incrementally, but always with the broader goals in mind. There need to be short-term milestones to motivate action today and maintain momentum. As these delivery timelines start to come closer, the consequences of not doing anything become more severe.

2. Reframe the investment case for decarbonization.

Understand the opportunity cost of not investing in decarbonization at scale today. Expand the business case for decarbonization when assessing costs and benefits. Understand the costs associated with supply-chain disruptions or operational shutdowns caused by climate events. Investments today can act as insurance against future climate risks, disruptions, and volatility.

3. Experiment with different ways to collect decarbonization data and insights.

Without an accurate snapshot of your organization's current decarbonization emissions profile, it can be difficult to measure improvements or even prioritize resources. Focus on getting better quality emissions data. Integrate additional ways to collect insights that will help you understand the current state of decarbonization in your organization: interviews, focus groups, and surveys are all effective ways to build a picture of where the organization is today.

4. Be prepared to revisit the organization's business model.

Executives should reflect on how compatible the organization's business model is with achieving its decarbonization goals. A whole-business transformation offers an opportunity to revisit an organization's go-to-market approach. When done properly, this should lead to new opportunities to leverage sustainability as a growth driver. If you are solely focused on the Net Zero transition risks or costs, it is easy to miss the opportunities that come along with it.

5. Create a portfolio of decarbonization activities.

Organizations are not doing themselves any favors by only focusing on short-term quick wins. In the long-term, it makes it harder to achieve the more transformative actions required to reach Net Zero. With this in mind, organizations should create a portfolio of decarbonization projects, some which have short payback periods (up to two years) and some with much longer periods (10 to 15 years). This approach to planning also helps organizations get in the mindset of decarbonization as a program of ongoing activity, rather than a series of discrete projects.

6. Ensure decarbonization governance aligns with financial and decision-making structures.

Messy governance can get in the way of significant decarbonization progress. Too often responsibility for decarbonization execution does not mirror the financial and decision-making powers in the organization. A centralized decarbonization approach can bring efficiencies in resource and budget management, but only if accountability for execution is owned by the stakeholders with the right authority, expertise, and access to resources.

7. Find ways to bring the organization's diverse capabilities together.

A whole-organization approach to decarbonization requires significant cross-functional coordination. Technical sustainability knowledge and expertise are only part of the many important skills and capabilities needed. A holistic approach requires collaboration from a wide range of functional leaders, including finance, technology, operations, procurement, and sales and marketing.

8. Boost your change management capabilities.

As well as functional input and technical expertise, a successful holistic approach to decarbonization needs to be backed by the right change management capabilities. Existing change management practices might be a good starting point, but will likely not be sufficient. Just as change management was critical to the digital transformation, it will be a vital component for unlocking the benefits of the decarbonization transformation.

9. Accelerate impact via external capital.

For most organizations, there is an opportunity cost involved in investing their own capital in decarbonization initiatives. It creates forced choices between decarbonization and product innovation or protecting margins. Innovative third-party financing options provide access to decarbonization capital to spearhead a whole organization transformation.

10. Embrace partnerships with external experts.

The skills and knowledge of internal teams can be augmented for greater impact through smart external partnerships. While the organization remains in the driving seat, external partners can help accelerate the process. This allows organizations to be more targeted in addressing internal capability gaps. Even the larger in-house sustainability teams are unlikely to have the breadth of knowledge and experience across all areas of decarbonization.

ABOUT ENGIE IMPACT'S RESEARCH

ENGIE Impact commissioned independent research consultancy Meridian West to conduct research among 515 senior decision-makers through online research during Q3 2023.

All survey respondents have responsibility for making or influencing decisions regarding decarbonization strategy and/or implementation within their organization. 37% 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, operations, finance, and sustainability roles (Figure 14).

Research respondents are situated within 21 different markets globally, with representation from EMEA (36%), the Americas (35%) and APAC (30%).

All respondents are from organizations that employ more than 10,000 people globally, with 42% from organizations employing at least 50,000 people (Figure 15).

The 515 research respondents represent a range of industry sectors, with the largest concentrations in the technology (18%), banking and finance (18%), industrials and manufacturing (16%), and retail (9%) sectors (Figure 16).

Figure 13

Survey respondents by seniority

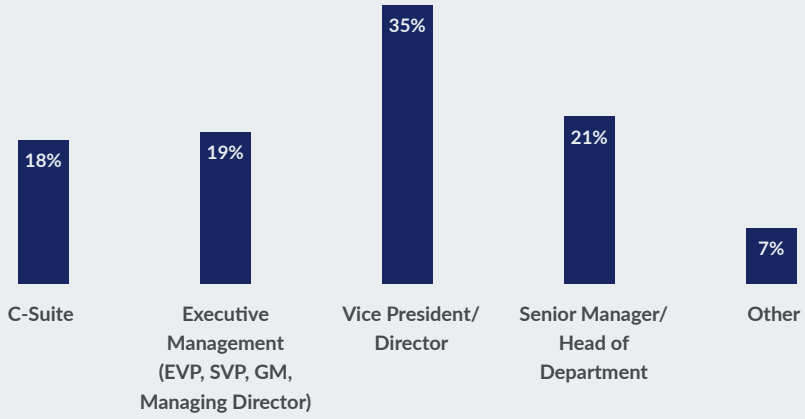


Figure 14

Survey respondents by functional area

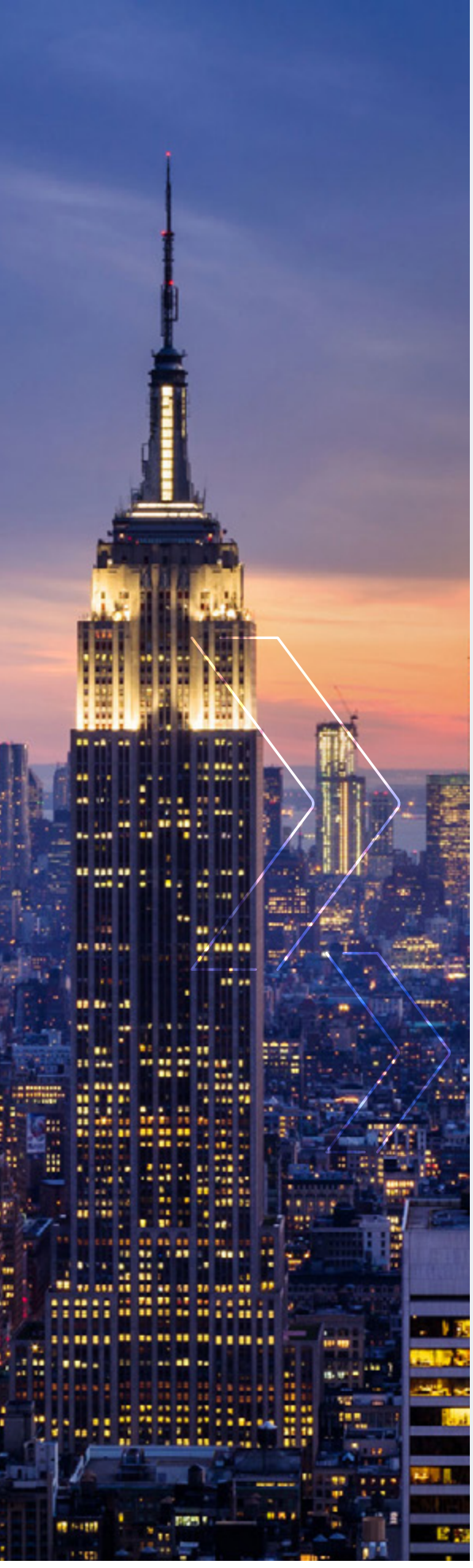


Figure 15

Survey respondents by size or organization

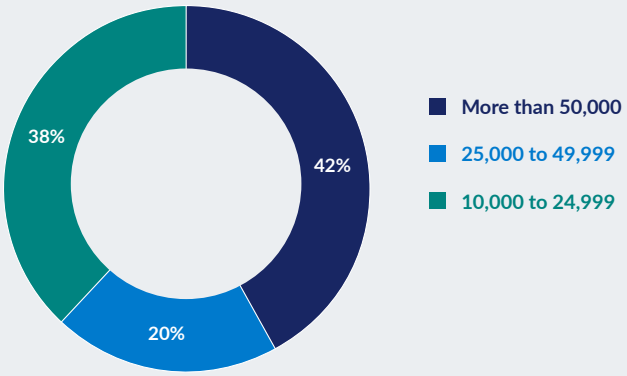
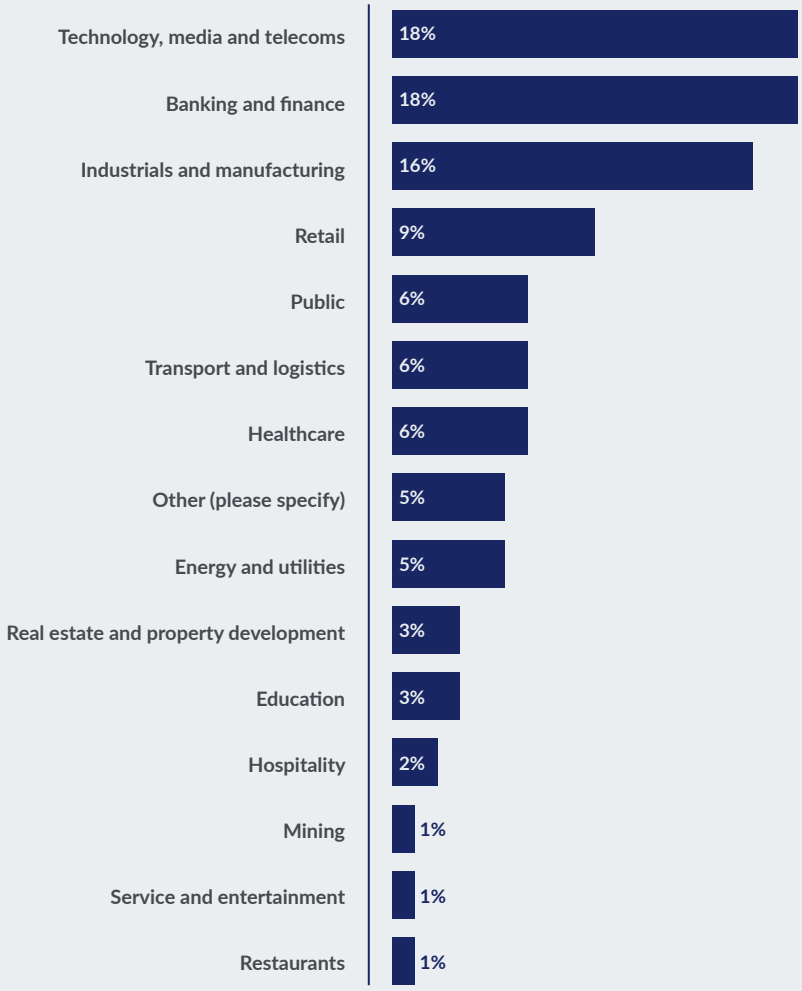


Figure 16

Survey respondents by industry sector



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ENGIE Impact

ACCELERATING DECARBONIZATION TOGETHER

Your decarbonization journey is unique, and making effective progress can be complicated. Wherever you are starting from, ENGIE Impact knows the way forward. Your goals become shared goals as we collaborate to meet vital carbon-reduction commitments. We will anticipate the road ahead as we navigate it together, however long it requires — taking your decarbonization goals from strategy to reality.

Want to learn more?

See how we take a comprehensive approach to decarbonization — including strategic expertise across sectors and regions, holistic carbon data management support, and numerous digital, financial, and project delivery resources.

engieimpact.com

Ready to talk?

We're here to partner with you and your organization as we all focus on accelerating decarbonization together. Reach out today to take decarbonization from strategy to reality.