

INSIGHT REPORT

SUSTAINABILITY CONSULTING

Key players confident of mid-term prospects

How are sustainability consulting providers innovating and adapting their offering to changing buyer demands as climate risk and ESG rise up the investment agenda? *Environment Analyst* examines the opportunities and challenges in the space where management consulting meets environmental consulting

BY JONATHAN BALLANTINE

There is strong evidence to suggest that sustainability is now becoming critical to long-term business performance and value creation. The convergence of environmental, social and governance factors has led to a new era of sustainability consulting. Four sustainability consulting providers talk up the market trends and opportunities as corporate sustainability gathers momentum.

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WITH SINCERE THANKS TO OUR MAIN CONTRIBUTORS:

- **Stuart McLachlan**, CEO & Co-founder, Anthesis Group
- **Sabine Hoefnagel**, Global Director, Services, Brand and Communications, ERM
- **Arjan de Draaijer**, Managing Partner, KPMG Sustainability
- **Philip Case**, Director & Financial Services Leader - Sustainability & Climate Change, and **Jack Newnham**, Director - International Development Director, PwC

Game-changing TCFD

Managing the threats of climate change, growing inequality and poor working conditions are demanding action from political leaders, business and society as a whole. And, for once, at least on one issue there has been a unified effort from world leaders. Through their endorsement of the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)** convened by the international **Financial Stability Board (FSB)**, G20 leaders have issued a clear signal to the private sector of their expectations in managing risks stemming from climate change.

Managing climate risks is crucial for investors and companies, enabling better decision-making and increased financial stability across the economy. The TCFD recommends that organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy. The Supplemental Guidance for Banks also recommends: "Banks should describe significant concentrations of credit exposure to carbon-related assets. Additionally, banks should consider disclosing their climate-

In a statement Michael R Bloomberg, founder of **Bloomberg LP** and Bloomberg Philanthropies and chair of the Task Force and UN special envoy for climate action, said: "The more companies know about the risks they face, the faster and more effectively they can address them - and the more they report that information, the better equipped investors will be to make smart decisions."

We asked our expert panel to comment on the current state of play of sustainability in businesses globally. Interestingly all repeatedly mentioned investor pressure and TCFD as evidence to support that sustainability is becoming critical to long-term business and value creation.

Arjan de Draaijer, managing partner, **KPMG Sustainability**, describes TCFD as "a potential game changer". He explained that with the involvement of the G20, the



Philip Case, PwC

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Golden opportunity

The shift towards sustainable finance and TCFD is a golden opportunity for the consultancies. Firstly, by advising their business clients (in TCFD jargon called 'preparers') to identify and report on climate-related risks. Secondly, working with financial institutions (in TCFD jargon called 'users') on the interpretation of data into financial risks. And thirdly, as an independent convenor, facilitating dialogue between these two groups.

According to de Draaijer, "We advise our clients by starting with a full assessment of where climate-related risk lies within the organisation, with a focus on the transition and physical risks prioritised by TCFD." For ERM and Hoefnagel, "TCFD enables businesses to evaluate the resilience of their business strategy and to identify opportunities through approaches like scenario-planning."

Indeed, ERM was engaged to provide expert support to the PSB's TCFD in the development of the recommendations, contributing practical approaches that

organisations can use when considering the financial implications of a range of potential future scenarios. "We have been working with a number of our clients over the last decade or more to conduct scenario-based assessments



TCFD enables businesses to evaluate the resilience of their business strategy and to identify opportunities



Sabine Hoefnagel

KPMG Sustainability Services – Structured Approach to Corporate Sustainability Journey



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Uncertainties and risks



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We asked de Draaijer et al to set out what the next few years may hold for sustainability and climate change consulting, taking into account major trends such as Brexit, changing attitudes of consumers and digitalisation. At a time of heightened political uncertainty they were all optimistic about the prospects.

One of the major sources of uncertainty right now is Brexit and nationalism. Growth and protectionism are affecting the global economy and could have a significant impact on the US market. We expect to see a focus on

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Making the business case for SDGs

Another global trend that will affect the industry is how the private sector will help governments turn the promises of the UN Sustainable Development Goals into reality. The SDGs requires changes to the business-as-usual paradigm and, for many companies, embracing this new reality will be a real challenge.

Consulting firms can play an important role in helping their clients to fully understand the implications of the SDGs and how to prioritise them. According to research published by PwC ([SDG Reporting Challenge, 2018](#)) there is a disconnection between words and action – 72% of companies mention the goals in their annual corporate or sustainability report, yet just 19% mention the goals in CEO or chair statements.

To help turn words into action, PwC has developed a blueprint for SDG success. It says: "Every part of the organisation has a role to play – it is not just a CSR issue. Leadership is key – CEOs and senior executives need to take an active interest in driving progress. Establish meaningful

KPIs to use to drive action and report on progress. Aim for the same level of quality of reporting on financial and non-financial information."

Interestingly, de Draaijer expressed his surprise as to how companies are positioning themselves around the SDGs. "I don't believe they are greenwashing but I feel there is definitely a lack of understanding and a missed opportunity about their potential," he explained. This viewpoint echoes research by the Business and Sustainable Development Commission who have estimated a huge opportunity worth \$12 trillion of value by 2030.



At the strategic end, ERM is currently working with organisations like the World Business Council of Sustainable Development (WBCSD) to develop

roadmaps on the SDGs, but the firm also works with individual companies across sectors to operationalise sustainability in their business.

By fully harnessing the SDGs business can tap into new market opportunities to drive growth, mitigate risk and attract talent. PwC's director of international development, Jack Newsham, explains how the SDG agenda is enabling consultancy to bring together clients from more traditional sectors, consulting with expertise in sustainable development. "For these businesses, the same team of clients buying services in sustainable products and processes."



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M&A activity

Mergers and acquisitions in the consulting sector are commonplace. Every year, thousands of consulting firms are acquired by competitors or merge with other consultancies on a global basis. The reasons behind such moves can vary ranging from boosting growth, deepening expertise to enabling international expansion. The sustainability consulting sub-sector is no different and has undergone a period of intense M&A activity.

Nearly three years ago EA published a series of articles on the market landscape for sustainability consulting services, together with profiles on the Big Four consulting firms. At that time Deloitte was busy ramping up its service offering through a number strategic acquisitions and key hires, notably through four member firms – namely the US, France, Canada and Australia country operations [\(EA.11-Apr-17\)](#). Between 2010-2014, Deloitte's shopping spree included the acquisitions of **DOMANI Sustainability Consulting**, **ClearCarbon Consulting**, **Bio Intelligence Service**, **Synergence** and **Visser Consulting**.

But more recently M&A activity has not been so focused within the management consulting community. Notably – although always an area of core interest to **ERM** – the c4,600-strong, London-based environmental consultancy has



made a series of acquisitions of its, including **BrownFlynn** [\(EA.16-Mar-18\)](#) and **SustainAbility** [\(EA.15-Jan-19\)](#), underlining its ongoing strategy to expand its breadth and depth of corporate sustainability services. **Anthesis Group** has adopted a similar approach with a string of purchases in 2019, including Spain's **Lavola** [\(20-Feb-19\)](#), **GoodBrand** in the [\(12-Feb-19\)](#) and also the **MADE-BY**.

Anthesis' buy-and-build strategy has seen a total of 10 acquisitions integrated since it was founded in 2007. Staff totals are expected to be the highest in the sector.

Anthesis Group acquisitions



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Digital transformation

In terms of excitement, across the board there was a sense of the massive potential that awaits in the digital space (across the various technology, data, analytics, robotics and AI genres). Understanding how companies can use advanced technologies to create change presents numerous opportunities. How can AI be used to optimise energy efficiency? How can robotics and IoT be used to improve waste recycling and drive circularity? How can Blockchain be applied to improve supply chain traceability? Will 3D printing localise manufacturing? How will autonomous vehicles change everything?

So many questions, so many opportunities. If managed correctly, digital transformation has the potential to enable the transition to a low-carbon economy by decoupling emissions from economic growth and resource use.

The market for digital sustainability services is still immature but it is starting to gain momentum. "What really excites me is this whole big data and AI space - there's so much to be discovered," stated KPMG's de Draaijer. According to Anthesis Group's McLachlan, "Our software development team has doubled in size in the last year, testament to how clients are now acknowledging how consultancy and delivery go hand in hand."



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So now could be the time for digital service providers to expand their offerings in order to help clients navigate the digital transformation journey.

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