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 material issues as a result in businesses seeking to integrate services from 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 Hoeftagel, Global Director, Services, Brand and Communications, ERM
• Arjan de Draijer, 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-related risks (transition and residual) in their lending and other intermediary business activities.”

As part of its 2018 report on the Task Force 150 banks with a portfolio of nearly 1,000 specific groups of assets. The banks, insurers, managers and financial institutions disclose and publish data on their climate-related risks and opportunities. 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 introduction of new frameworks, and the emphasis on the importance of integrated reporting, TCFD will soon be a vital tool for businesses in understanding and managing climate-related risks.
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 FSIs 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 assessment.”

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KPMG Sustainability Services – Structured Approach
Corporate Sustainability Journey

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Uncertainties and risks

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. They were all optimistic about prospects.

One of the major sources of uncertainty right now is nationalism. Governments and protectionism are affecting the UK, and it could have serious consequences for the world.
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 require 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 internal development, Jack Newnham, says how the SDG agenda is exposing consultancy to bring together and from more traditional consulting with expertise in development. “For these businesses, it’s the same team of clients business services and sustainability professionals working together to bring these opportunities to the market.”
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 of 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, Synergy 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 c.6,000-strong, London-based environmental consultancy has made a series of acquisitions of late, including BrownFlynn (EA. 16: Mar:18) and Sustainable (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 US (12: Feb:19) and also the acquisition of European sustainable apparel MADE-BY.

Anthesis’ buy-and-bake strategy has seen a total of 15 acquisitions since it was founded in 2017.
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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“We are seeing a real shift in our clients’ thinking, with a focus on how technology can be used to drive sustainability outcomes.”

So now could be the right time for firms to expand their digital services in order to help their clients to achieve their sustainability goals.