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Most business leaders see environmental sustainability as a costly obligation rather than an investment in the future

Executives recognize the urgency for climate action but limited impact is visible on the ground so far, as they lack an overarching strategy, clarity on the business case, and coordinated implementation

Paris, November 10, 2022 – While organizations recognize the sustainability requirement and most have announced net zero commitments, there is still a gap between long-term ambition and short-term concrete actions, according to new a report from the Capgemini Research Institute, 'A World in Balance - Why sustainability ambition is not translating to action.' The report also highlights that the business case for implementing sustainability measures is largely underestimated or misunderstood, with only 21% of executives believing that it is clear.

To understand whether companies are taking the urgent mandate of environmental sustainability sufficiently seriously, and to assess their progress over the years, the Capgemini Research Institute conducted the first edition of an annual global research study, surveying 2,004 executives from 668 large organizations (annual revenues over $1 billion) across 12 countries and key industries.

Although the sustainability vision is being integrated into remodeled business strategies and nearly two thirds (64%) of executives say that sustainability is on the agenda of each of the C-suite in their organization, there is still a gap between climate ambition and concrete actions: less than half (49%) have a defined list of initiatives for the next three years, and just over a third (37%) of respondents say their company is redesigning its operating model. In total, the level of investment into sustainability initiatives for companies with over $20 billion in revenue is just 0.41% of total revenue on average, whereas smaller companies (firms with revenues between $1-5 billion) are investing more (average of 2.81%), compared to an average 4% for the R&D spend by the S&P 500 companies in 2020.[1]

The report found that many organizations are lacking a collective vision and coordination around sustainability efforts across their operations, and the various teams are still working in silos. For example, only 43% of respondents say that sustainability-related data is available and shared across the entire organization, and less than half (47%) of businesses are actively recruiting new talent with strong sustainability skills.

Employee expectations and regulations currently the main drivers for sustainability initiatives

Currently, the main drivers for sustainability initiatives are pressure from current and future employees (for 60% of executives) and the need to pre-empt stricter future regulation (57%), while 52% of executives say they expect it will increase their revenue in the future. Most businesses are holding back because they are fearful of short-term cost implications. Sustainability is frequently seen as a cost center, rather than a value center, particularly within the context of the global macro-economic landscape. Only one in five (21%) respondents believe that the business case for sustainability is clear, while 53% believe that the cost of

[1] Sather Research, "R&D spending as a percentage of revenue by industry (S&P 500)," March 2021; National Center for Science and Engineering Statistics.

pursuing such initiatives outweighs the potential benefit.[2] On the contrary, the report found that organizations that are prioritizing sustainability are already outperforming organizations that aren't.[3]

"*Many companies understand the sustainability mandate, but organizations need to align on a clear strategy and short-term objectives to deliver concrete outcomes that will enable society to live within and not beyond the planetary boundaries,"* says Cyril Garcia, CEO of Capgemini Invent and Group Executive Board Member. *"It's now or never, if we want to limit global warming to 1.5°C. Change needs to come from the top. We need to see companies pivot their business models to build sustainable products and services. This is an investment in the future. With increasing regulation and pressure from civil society, resulting in more scrutiny by consumers and investors, companies that are lagging in acting on their sustainability ambitions run a high risk of seeing their current business models become obsolete or inadequate in the coming years. Who would want to run an unsustainable company?"*

Some companies are investing in technology to limit their environmental impact

Companies are more conscious of the environmental footprint of their technology and leveraging new tools to achieve their objectives. Over half (55%) of executives say that their company knows how much carbon its technology emits – across digital tools, apps, IT systems, and data centers –, and this proportion reaches 63% in industrial manufacturing, and 61% in consumer products and energy. In order to achieve their sustainability objectives, 58% of organizations say they are already using AI and automation, in particular in the energy sector (72%), and over half (54%) of organizations globally are investing in digital technologies such as AR/VR, or collaboration tools to reduce employee travel.

Methodology:

For this research, the Capgemini Research Institute conducted a survey of 2,004 respondents from 668 organizations with annual revenues in excess of $1 billion. Fifty percent of executives were from corporate functions (e.g., strategy, sustainability, sales and marketing, accounting and finance, IT, operations) and the other 50% were from value-chain functions (e.g., innovation/R&D, product design and development, sourcing and procurement, supply chain and logistics, manufacturing and production). These organizations are based across 12 countries (Australia, Canada, France, Germany, India, Italy, Japan, Netherlands, Spain, Sweden, UK, US) and operate across key industries, including aerospace and defense, automotive, consumer products and retail, energy, financial services, healthcare and life sciences, industrial manufacturing, telecom, utilities, and the public sector/government. The scope of the research focused on practices and initiatives within environmental sustainability and did not include the social aspects of sustainability.

To get access to the report, click here: https://www.capgemini.com/insights/research-library/sustainability-trends

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[2] This perception is particularly profound in the United States (61% executives surveyed) and in the retail sector (65%) whereas only 37% of executives in healthcare and life sciences say the same.

[3] From 2020 to 2021, the 11% most advanced companies in sustainability or "frontrunners" realized 83% higher revenue-per-employee compared to the average, whereas the 26% least advanced were 13% below the average. "Frontrunners" also realized a 9% higher net profit margin compared to the average during the same period. This doesn't demonstrate that sustainability directly leads to profitability, but highlights that it isn't necessarily a financial drain and that organizations can be financially ahead and sustainable at the same time. "Frontrunners" have for example put in place measures which benefit both on the financial and sustainability fronts, like smart systems to reduce energy consumption, waste reduction schemes, or encouraging work from home to reduce emissions. "Frontrunners" are defined as companies demonstrating the most maturity in 1) value-chain processes, including Sourcing, R&D/Product Design/Innovation, Manufacturing and Logistics; 2) how they get their people to buy into their sustainability visions and 3) the use of technology for sustainability.

About the Capgemini Research Institute

The Capgemini Research Institute is Capgemini's in-house think-tank on all things digital. The Institute publishes research on the impact of digital technologies on large traditional businesses. The team draws on the worldwide network of Capgemini experts and works closely with academic and technology partners. The Institute has dedicated research centers in India, Singapore, the United Kingdom, and the United States. It was recently ranked #1 in the world for the quality of its research by independent analysts.
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