Policy Liaison Group
Environmental, Social, and Governance

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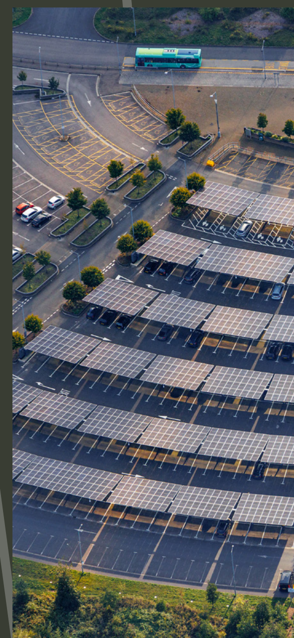
CISL's competitive sustainability report

Roundtable with Victoria Collins MP; Dr Nina Seega, Director of the Centre for Sustainable Finance at CISL; and Viola Meyerweissflog, CISL's Programme Manager for the UK Corporate Leaders Group.



Westminster

Introduction

The Cambridge Institute for Sustainability Leadership's (CISL) 'competitive sustainability' report confronts the urgent need to reshape markets to meet net zero and ESG challenges. The authors highlight a core tension between short-term profitability, which often outweighs long-term sustainability risks, with climate and biodiversity losses already translating into economic impacts. Participants at this roundtable of the Policy Liaison Group, chaired by Victoria Collins MP, acknowledged that while ESG disclosures have raised awareness, transformative incentives are key to driving systemic change. Bridging this gap will require bold policy decisions and a shift in business mindset, aligning profitability with sustainability to secure a resilient future.

Key takeaways

CISL's report — "how do we change the market?"

- Climate, natural capital, and biodiversity issues are "translating into physical losses". We have a stark choice between a "really unpleasant" pathway through a "multitude of crises" or we "design out the tension between profitability and sustainability."
- Technology and the market will only drive the change if they are encouraged to, requiring a change in mindset in the private sector and for government to be more active.
- Private enterprise must not rely on individual institutions to push the dial. Instead they must coordinate more effectively amongst themselves, developing a collective mindset, delivering structural change, and accounting for the cost of inaction as well as action.

Policy levers — "be bold"

- Greater clarity, consistency, continuity, and coherence are fundamental. We need an industrial strategy that encourages companies to compete on sustainability. An industrial strategy on its own like the EU's green deal will not necessarily have much-needed incentives at its core.
- Subsidies, mandates, bans, and tax exemptions should be deployed to create effective incentive structures for action.
- "ESG hasn't delivered", policymakers need to do more to "unlock investment and sustainability innovation".

"We see that ESG hasn't delivered"

- "It's not ESG which has failed, but the necessary transformation in sustainability thinking." Business leaders must get out of thinking that sustainability and profitability are a trade-off. "Sustainability is people, profit, and planet".
- Ministers need to focus on channelling private investment in more sustainable activities, — "there's a perception that industry waits for government handouts". Policymakers need to be aware "there's a lot of institutional money that's ready to be unlocked".
- However, ESG disclosures are often seen as a distraction from impact. The ICC and Sage found that 83% of SMEs prioritise sustainability, but only 8% report their impact. There is an awareness that disclosures will open up investment opportunities, but the amount of data asked by investors is onerous and distracting.

- Automated solutions that are essential for SMEs are emerging, however, the reliance on estimates is a huge limiting factor, and there needs to be more focus on making data openly available — e.g. utilities.
- Scope 3 reporting (indirect emissions up and down the value chain) is notoriously challenging. There's an argument for encouraging, particularly smaller firms, to undertake Scope 1 and 2 and focus on impact instead of Scope 3.
- The EU's corporate reporting framework, CSRD is criticised for being too binary and too large, however it does require businesses to think about opportunities, unfortunately, though many are "so lost in the regulation" they can't take advantage of these features. Better communication is needed.

Narratives and timelines

- Investing in transition at scale is contingent on a switch in narrative, with an industrial strategy at its core.
- "Sustainability and profitability go together as long as we're looking at medium to long-term". The synergy is lacking in the short term, that narrative will only emerge if the incentives are there.
- If investors and companies price in future costs, the narrative will automatically shift, but only incentives will bring about such behaviour.
- "Words matter", if we want to drive transition, we need to be "very mindful" of the terms we use and use them consistently. We talk about a just transition in a global south context, even though it applies equally to the UK and other developed economies.

UK leadership

- At COP29, the US was less engaged with climate change and the EU is facing a series of internal challenges, "there's a real opportunity for the UK to step into essentially a vacuum that is currently being created on a global scale".
- The UK has taken a sensible approach to developing green finance, underpinned by its work on impact labels, and transition finance and planning. There's an "opportunity to set positive incentives for transformation, contrary to the common EU approach of "ruling everything out that you don't like."
- Even though the UK is an offshore wind leader, the technology is imported — e.g. Denmark, and Germany. There's an imperative to claim technological leadership by spurring innovation.

Issues raised

“The impact is in the transformation”

- Small-scale impact investment is “really easy”. Large-scale impact, “where we fundamentally transform the system” is much more difficult “unless we know the direction where everybody's going” — i.e. an industrial strategy — changing the narrative is an important component of this.
- The Green Taxonomy and other instruments are geared towards sustainable rather than transitional activities, which are critical — “impact is in the transformation, and the transformation has to go from worse to better”.
- Collective action and a level playing field are essential — “the same rules will help to drive direction”.

Pricing in transition

- A key source of tension regarding profitability and sustainability is that sustainability "is not reflected on the balance sheet, and as a result, it is not sufficiently integrated to drive meaningful change."
- Similarly, net present value is not assessed through the prism of a company’s transition plan, which could be “gazillions” or the business model could be broken, “the logic is nowhere”.

Recommendations

- Develop an effective incentive structure that rewards more sustainable practices.
- Cease rewarding unsustainable activities, starting with scrapping fuel subsidies.
- Make data openly available — e.g. utilities.
- It is essential to be able to compare ESG rating methodologies — the government has published its consultation response, now awaiting the legislative proposal.

Links

CISL report: Survival of the fittest — from ESG to competitive sustainability

ICC/Sage survey: 'SMEs struggling to report and act on sustainability, despite rising pressure'

We would like to thank the members of our Advisory Board for their contributions and continuing support.

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