COMMENTARY

Your net-zero plan may be “good”, but is it “right”?

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Marakon

Management Consulting at Charles River Associates

Introduction

One in five large corporations globally, including over half of FTSE 100 businesses, have already announced net-zero pledges[1,2]. Without concrete plans to back them, however, these pledges may not be worth the paper they are written on.

Writing these plans may no longer remain optional. As the British government looks to mandate large companies to publish net-zero plans by 2023, we expect a surge in announcements of net-zero plans over the next year. While most of these plans will be well intentioned, far fewer will actually deliver on their promises.

This unfortunate gap between climate rhetoric and meaningful action will have huge consequences—both for curbing rising temperatures and for individual investors and companies. Investors who are exposed to businesses that fall short on their net-zero pledges, for instance, run the risk of discounted valuations. Meanwhile, businesses whose value-chain partners fail to decarbonise, risk missing their own Scope 3 net-zero commitments. Net-zero will therefore play an increasingly large role in decisions around which companies to invest in and who to partner with.

Net-Zero: “Good” vs. “Right”

Because so much depends on the success of net-zero plans, investors and CEOs are increasingly asking us how to assess such plans. How do we know if a particular net-zero plan is “good”? And crucially, is a “good” plan the “right” plan for a given company?

Start with what makes a plan “good”. We know that such a plan is backed by a rigorous change management approach. This typically involves pulling the traditional managerial levers—including setting clear net-zero goals, gaining leadership sponsorship, getting organisational buy-in, publishing disclosures and reporting to push the company towards net zero. This approach, in short, checks all the boxes and is easy to ascertain from the outside.

Nevertheless, a good plan may still not be “right” for a particular enterprise—if the plan’s goals are unachievable, if the initiatives are too expensive to execute or if the plan lacks the necessary grounding in technology advancement to be implemented.

A “right” plan instead builds on a good plan by adding a nuance specific to a company’s unique market economics and competitive position. A right plan considers complex trade-offs, including between a company’s desire to reach net zero, its industry context, technology advancements and the costs of its net-zero transition.

Building a right plan is therefore much harder—as our work with CEOs confirms—than merely building a good plan. That’s because the former addresses the difficult question of how an enterprise should spend its scarce capital, time and energy on net zero, in order to do the right things at the right time and in the right order. A right plan embodies inter-disciplinary thinking too, with business, science, law and finance fused together. With the right plan, the measure of success is not only how fast a company achieves net zero, but also whether it can maintain its overall financial health as it transitions. Our extensive conversations with CEOs have helped us build a mechanism that allows business leaders and investors to gauge whether a company’s net-zero plan has not only managerial commitment, but also the substance to back these up.

Managerial Lens: Elements of a Good Plan

As more net-zero plans are published, there is an emerging consensus on what good plans have in common (see Figure 1).

[1] Disha Shetty, “A Fifth Of World’s Largest Companies Committed To Net Zero Target”, 24 May 2021, *Forbes.com*.
[2] Guy Faulconbridge, “Nearly half of FTSE 100 companies have no net-zero target, Arabesque says”, 20 October 2021, *Reuters*.

Figure 1: Six components of a good net-zero plan

1	Leadership and governance	CEO and board buy-in; senior executive accountability
2	Goals and targets	Clear long-term net-zero goal communicated in alignment with science
3	Organizational engagement	Top-down goals cascaded to business units backed by company-wide engagement and communication
4	Reporting and disclosures	Transparent climate reporting and disclosures (e.g., TFCD and ISO 14001)
5	Incentives	Executive leadership performance objectives and remuneration aligned with sustainability
6	Leadership and governance	Specific procedures implemented that support process of cutting emissions

Companies that, at the very least, fail to create a good net-zero plan increasingly encounter resistance, such as when mining group BHP faced significant opposition last year from shareholders for not being in alignment with the Paris agreement[3]. Getting this “good plan” in place lays the foundation for a firm’s robust decarbonisation journey. Still, as consensus develops around what constitutes a good net-zero plan—and more businesses create one—companies will, in turn, face mounting pressure to back their pledges with the right substance.

Substantive Lens: Elements of the Right Plan

The critical substantive lens therefore aims to assess whether this good plan is in fact “right” for the company given its unique industry, regulatory, technological and business context. It is undoubtedly harder to assess this from the outside and therefore requires a more considered approach.

As we help CEOs navigate the complex trade-offs to build their tailored “right” plan, some of the questions we get asked include:

Figure 2: A good plan vs. the right plan

Good plan: Checklist
Industry agnostic; Simple to evaluate from the outside

- ✓ Clear goals and targets
- ✓ Effective leadership and governance
- ✓ Clear reporting and compliant disclosures
- ✓ Strong organisational engagement
- ✓ Aligned management incentives
- ✓ Specific policies and procedures

Right plan: Trade-offs
Company and industry specific; Strikes delicate balance

- Appropriate pace and timing
- Near term vs. long-term action
- Shift in business model vs. use of offsets
- Financial outlay and its opportunity cost
- Portfolio shifts and stranded assets

[3] Karl Decena, “BHP shareholders approve climate plan, but chairman still on defense”, 11 November 2021, *S&P Global*.

1. Pace – am I moving too fast or too slowly?

Executives face unavoidable trade-offs when considering how to pace their decarbonisation transition. Going too fast could mean wasting shareholder money or managerial bandwidth if the strategy isn’t properly thought through. Yet going too slowly might mean a lost opportunity to gain competitive advantage and environmental or reputational damage. In an industry like international shipping, for example, the high capital expenditure required for new ships and the uncertainty around future fuels means that maintaining fuel flexibility may also be a viable strategy[4].

2. Financial Framework – how do I ensure the transition doesn’t undermine the financial success of my company?

When resources are allocated towards the net-zero transition, they are diverted away from other uses. The right plan therefore rigorously sequences net-zero interventions to maximise carbon reduction for every dollar spent. As such, a prioritised list of interventions will be unique to every industry and company.

The right plan also clearly articulates the capital required to transition to net zero—and when to do so. The right plan strikes the optimal balance between high upfront transformational investments against a more stable investment trajectory focused on steady operational improvement. And the right plan isn’t only clear on how much capital is needed and when, but also articulates how the transition will be financed over the delivery timeline, using the optimal mix of operational savings and debt, given a company’s financial situation.

3. Technology – how do I know if my plan is technically feasible?

For plans to succeed, they must be well grounded in technological and scientific advancement. Yet many industries currently lack the technology to fully transition. Companies that lead net-zero transitions will therefore need to weigh their plans’ reliance on far-off, more speculative technology against prioritising operational efficiency today.

Many executives also ask us if they can continue to drive their current business model while relying on carbon offsets. Our view is that the relative ease of using carbon offsets must be weighed against notable problems associated with the quality and integrity of such schemes, as well as their potential to distract from the harder task of abatement. AstraZeneca, for instance, has decided to make its global operations responsible for zero carbon emissions without relying on offset schemes;[5] for harder-to-abate sectors, on the other hand, offsets may be the only viable short-term strategy.

4. Portfolio Strategy – how can I use my portfolio to decarbonise?

Forward-looking executives will consider using portfolio transformation to get to a net-zero future. For companies with sustainable innovation in their DNA, such as Tesla, the decision to maintain and accelerate their business lines should be simple. But for other firms, often including long-standing incumbents, the decision may be more difficult.

Some of this latter group of companies have already taken the leap to kill entire sections of their business and transition entirely. Ørsted, for instance, transformed itself from one of Europe’s most coal-intensive energy companies into the world’s most sustainable energy company[6]. Yet many other firms have still not charted their net-zero course; how they choose to do so—and the extent to which their choices are backed by clear strategic thinking—will be pivotal.

Finally, as technology and the external environment adapt, so too should net-zero plans. It is not sufficient to release a net-zero plan and leave it to gather dust. Plans should instead be under ongoing review as businesses seek to re-optimise and re-engage.

In the months ahead, a wave of net-zero plans will be released to great fanfare. Prudent investors and executives will, however, look beyond the headlines to rigorously evaluate the underlying substance of these plans. Our proprietary methodology can help leaders invest their scarce time and capital in building relationships with companies that have the highest chance of success in a net-zero future.

[4] “New study indicates that achieving net zero is an ‘OPEX challenge’ “, 25 October 2019, Lloyds Register.

[5] “AstraZeneca’s ‘Ambition Zero Carbon’ strategy to eliminate emissions by 2025 and be carbon negative across the entire value chain by 2030”, 22 January 2020, AstraZeneca.

[6] “Could our green transformation inspire yours?”, Ørsted (orsted.co.uk).

Written by:
Neal Kissel
Co-Practice Head, London
nkissel@marakon.com
+44-20-7664-3727

Arushi Chopra
Principal, London
achopra@marakon.com
+44-207-664-3642

Jake Brewer
Associate, London
jbrewer@marakon.com
+44-20-7664-3722

About Marakon

Marakon is a strategy and organizational advisory firm with the experience and track record of helping CEOs and their leadership teams deliver sustainable profitable growth. We get hired when our client’s ambitions are high, the path to get there is not clear (or taking too long) and lasting capabilities are as important as immediate impact.

We help clients achieve their ambitions for sustainable profitable growth through:

- Stronger strategies and advantaged execution based on:
  a. A better understanding of what drives client economics and value
  b. Insight into changing industry dynamics and the context in which clients need to succeed
- A stronger management framework to generate better ideas and link decisions and actions to value
- A stronger organization with a more focused top management agenda and well-aligned resources
- A more confident and effective leadership team that’s focused, decisive, and strategic

We have a joint team delivery approach where client ownership and engagement is paramount. Partners are highly engaged in the work product and supported by strong analytical and industry relevant capability. We work as advisers and catalysts in close, trust-based relationships with top management teams.