

COMMENTARY



SUSTAINABILITY CASE STUDY: NORTH AMERICAN UTILITY

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We recently supported the CEO of a North American utility to refresh its corporate sustainability agenda to more tightly integrate sustainability into the enterprise strategy. This CEO recognised the need to embrace a more sustainable and inclusive decision-making process to deliver more positive long-term impacts for shareholders and employees, customers, and the communities the company operates in.

The company was at an early stage of the sustainability journey and primarily focused on meeting external environmental, sustainability and governance (ESG) disclosure requirements and retrospectively reporting progress. The reporting capability was well established, but it had a narrow mandate and lacked the mechanism to ensure coherence of relevant ongoing activities and to influence prospective strategic investments. While the company had multiple sustainability initiatives in place, these were disjointed, and their strategic reasons were not always clear to the wider organisation. Furthermore, there was no common definition of what sustainability meant in the company nor clarity on the overall ambition, which made it difficult to engage and motivate employees and other stakeholders.

With this starting point, we set out to help the organisation achieve the following objectives:

- Dial up the ambition of the sustainability agenda to encompass a broader set of lenses and to ensure sustainability priorities would become sources of competitive advantage
- Increase coordination and coherence of relevant activities to ensure alignment with business strategy
- Inform a refreshed set of forward strategic investments aligned with the sustainability agenda
- Embed sustainability lenses into the day-to-day decision-making process to help the organisation “live” its stated purpose

ENGAGEMENT APPROACH AND DELIVERABLES

Our first step was to help the organisation elevate sustainability as a top-down capability and to promote the notion of sustainability and strategy as “flip sides of the same coin.” We recommended the company adjust its organisational structure to elevate the accountability for sustainability by creating a new executive role with a mandate over both enterprise strategy and sustainability, with a direct line to the Board. This adjustment would set the foundation to enable a tighter linkage between the sustainability agenda and business strategy and it ensures that the sustainability priorities identified will cascade in a visible manner, with accountability, for impact.

Given the considerable breadth of sustainability issues, we sought input from a wide set of functional stakeholders to inform the sustainability agenda. These stakeholders include Finance (where the ESG reporting capability resided), Corporate Development, Public Affairs and HR. Broad engagement was critical to understand where there was momentum, and to identify gaps and concerns to enable changes to the status quo.

Using these inputs, we developed a framework to help the organisation think about the choices to advance sustainability, both in terms of what topics to focus on and how to drive progress on the selected topics (see Figure 1). We helped inform the focus topics (“what”) through a materiality assessment that captured input from a broad group of stakeholders (shareholders, customers, employees, local communities, government). We also helped frame the levers available to progress the focus topics (“how”), which were largely informed by our observation of sustainability exemplars. The framework served as the basis to debate the underlying content of the sustainability agenda, as it forced discussions around near-term priorities, trade-offs, and the level of ambition required to ensure impact and create long-term competitive advantage.

FIGURE 1: FRAMEWORK TO ADVANCE SUSTAINABILITY (NORTH AMERICAN UTILITY ILLUSTRATION)

What	How					
	Governance/ Organisation	Goals & Targets	Internal Awareness & Engagement	Policy, Rewards & Incentives	Investment Criteria	Reporting/ Disclosures
GHG Reduction						
Customer Affordability						
Community Relations						
Health & Safety						
Workplace Diversity						
Innovation						

Key:

Focus of next 6-12 months

Focus for next 1-3 years

We then helped frame the sustainability road map for the organisation, building on learnings from how sustainability exemplars manage the interplay between the “what” and “how,” in particular with respect to their deliberate approach to pulling levers and sequencing actions to advance their sustainability objectives. The road map for the company was designed to be ambitious yet sequenced to build momentum and create

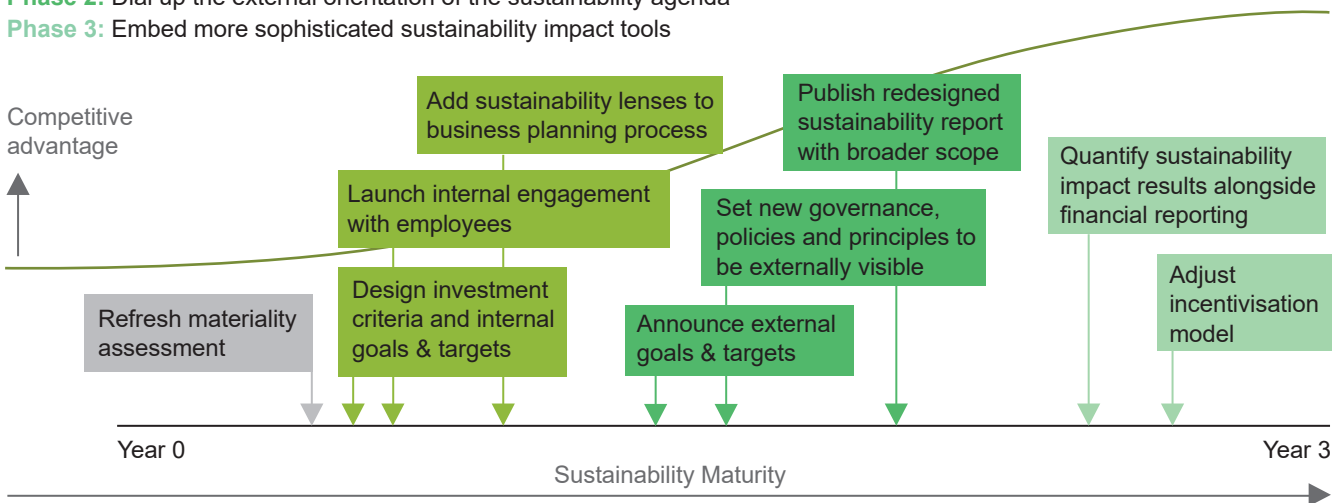
continuous improvement, rather than trying to do too much too fast which could overwhelm the organisation (see Figure 2). The sequencing was designed to first set the internal foundation to bring sustainability to the fore of existing business operations before dialling up the external engagement of the sustainability agenda, and then embed sophisticated impact-tracking tools as part of the operating model.

FIGURE 2: HIGH-LEVEL SUSTAINABILITY ROAD MAP AND SEQUENCING (NORTH AMERICAN UTILITY ILLUSTRATION)

Phase 1: Internal focus to set foundation to bring sustainability to the fore

Phase 2: Dial up the external orientation of the sustainability agenda

Phase 3: Embed more sophisticated sustainability impact tools



We helped define specific initiatives to underpin the priorities to ensure the sustainability agenda would be operationalised through tangible actions. For example, with respect to advancing greenhouse gas (GHG) reduction, specific environmental standards were added to the investment appraisal process, including setting exclusions for certain asset classes and applying future carbon tax rates.

Time-lagged goals and targets were also designed and introduced, initially as an internal lever to evaluate the GHG contribution of potential investments, and for subsequent external disclosure to signal the company's commitment to external stakeholders. We also pushed the idea of introducing a net-zero carbon goal to stretch the ambition, while recognising the complex debate associated with making such a commitment given the implied trade-offs between customer access to cleaner energy and maintaining reliability and affordability. We helped frame this debate for the leadership team and the Board, including the broader implications for the enterprise strategy, to enable these stakeholders to make a more informed and proactive decision.

IMPACT

The company is still early on in its journey and recognises that embedding sustainability into the fabric of the organisation will be a continuous process. With a clear road map and the enabling structure and leadership in place, it has already made significant strides in a short period of time in building a more ambitious, elevated and coordinated sustainability capability. Most importantly, the sustainability perspective is now more integrated with strategy to inform business leaders' decision-making. In particular, the top-down promotion of the sustainability agenda has shaped the enterprise strategy towards a greater focus on cleaner energy growth, resulting in a substantial shift in forward capital deployment from traditional energy infrastructure to renewable and other clean energy solutions.

Improvements in the company's sustainability capability were recognised within six months of our engagement:

- Better stakeholder understanding of the company's sustainability ambition and definition of sustainability, enabled by a clearer linkage to the company's purpose
- Higher employee engagement scores as sustainability became a key mechanism for unlocking the inherent passion of employees to engage with the company's purpose
- A more informed and balanced investment decision-making process adopted by business leaders beyond a singular reliance on financial information and analysis
- Positive movement in select ESG ratings, particularly around the environmental aspect

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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.

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