New York Climate Week highlights the importance of critical thinking toward sustainability

The road toward sustainability is not linear, and companies are encouraged to think critically about their sustainability strategies to be resilient against policy and market changes. Getting used to the business as 'unusual' is key; so is engaging with consumers along their sustainability journey

Central Park in New York City

In recent years, sustainability has increasingly had to cope with toughened market conditions, policy, and geopolitics. Meanwhile, despite technological advancements, many clean-energy options remain costly to deploy. All these factors are affecting how companies execute transition plans, requiring them to think more critically about their sustainability strategies.

That is reflected in this year's New York Climate Week, where participants went beyond emphasising ambition and achievements to discussing what challenges we face to accelerate the energy transition and what innovative solutions we can embark on.

Get used to the business as 'unusual'

An insightful aspect to many New York Climate Week conversations centred on disruptive ways of doing business: committing to sustainability means getting used to the business as 'unusual', whether it is exploring the unknown, managing trial and error, or engaging in difficult but constructive conversations with clients. These changes may be costly to invest in and challenging to implement at the beginning. But in the long term, business as 'unusual' in sustainability can transform burden into benefits, as evidenced in later analyses.

The road toward sustainability is never linear, complicated by frequent policy and market disruptions. This therefore requires companies to practice sustainability with constantly refreshed minds. Sustainability goes beyond compliance to managing risks, harnessing opportunities, aligning customer demand, and creating value.

What is the golden ratio between carrots and sticks?

Policy is crucial in facilitating the energy transition, as it can support nascent technologies, more properly price dirty economic activities, harmonise industry practices, and create level playing fields. As we have pointed out in many analyses, the US' energy transition largely relies on incentives (carrots) to scale up the production of clean technologies, whereas the EU relies relatively more on standards and mandates (sticks) to steer demand toward a greener direction.

A topic we heard companies and investors talk about during the climate week is how to effectively enhance the demand for clean energy. On the one hand, if producers cannot secure long-term offtake agreements in large amounts, then it is hard for projects to advance even if the necessary technology, resources, and infrastructure are all available. On the other hand, if regulations and demand-side mandates are unrealistic, then there can be excessive non-compliance that defeats the purpose of regulation. The best ratio might be different across regions, but each jurisdiction needs a combination of carrots and sticks in terms of policy for decarbonization. Overly relying on one and ignoring the other will not yield optimal results.

Refine business strategy through broadened sustainability metrics

Companies have emphasised the importance of pursuing environmental stewardship, which lies beyond adhering to the most used sustainability measurements such as emissions reduction and renewable energy usage. And the notion of stewardship can be highly industry specific. In the food and agriculture sector, stewardship can represent strengthening soil health and improving water availability and quality. Doing this can not only enhance crop output and resiliency, but also prevent land degradation. This does not mean that the emissions metric should be discarded; rather, a wider range of considerations can together lead to a more holistic approach to sustainability that highlights sector materiality.

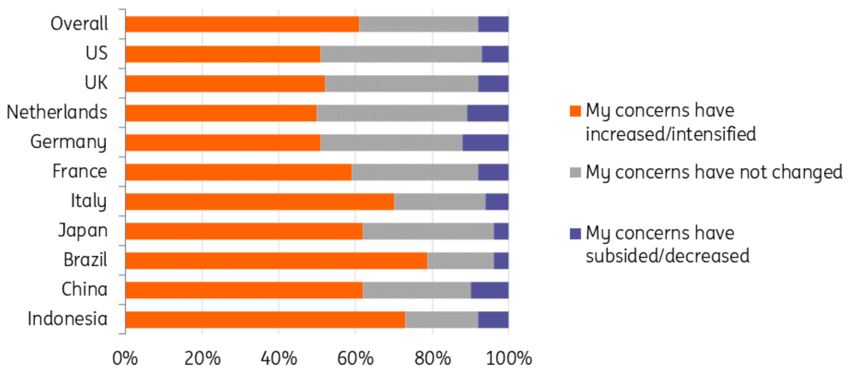
Some jurisdictions are encouraging this holistic thinking through sustainability disclosure requirements. The EU's soon-to-be-mandatory Corporate Sustainability Reporting Directive (CSRD), for example, requires some 50,000 EU companies and at least 10,000 foreign companies to report in phases on sustainability metrics such as water, biodiversity, and circularity. In addition to complying to the law, companies can also benefit from using their own ESG data to refine sustainability strategies. These include improving sustainability strategy through gap analyses and increasing internal business efficiency. Standardized disclosure, coupled with enhanced ESG strategy, can also help companies enhance the access to capital.

Marry sustainability with customer centricity

According to a global study conducted by Bain & Company, around 60% of consumers have become more concerned about climate change in the past two years, with packaging and recyclability emerging as two main major considerations. This means that companies, especially those in the consumer goods and retail sectors, would appeal to sustainability-conscious consumers by closing the loop for the full product life cycle.

Consumers have become more concerned about climate change

Respondent answers to the question of 'How have your climate change concerns have changed over the past two years?'



Note: Excludes respondents who said they do not believe the climate is changing, n=18,991. Source: Bain Consumer Lab ESG Survey 2024

Meanwhile, however, anecdotal evidence shows that sustainability can move down the priority list if sustainable products are too costly or inconvenient to use. While it is debatable how much more expensive sustainable products can be and who should be bearing that cost increase, sustainability should not derail from being consumer-centric.

In the automotives industry, for example, companies can design electric vehicles (EVs) through leveraging their brands' traditional selling points, whether it be luxury, coolness, or ease of use. While creating luxury/cool EVs relies on product design, one way to boost the ease of use is to partner with restaurants, shops or office buildings for EV charging. This can help consumers overcome their unwillingness to wait a long time charging EVs and narrow the infrastructure gap that countries like the US are facing.

On top of that, communication is key. Companies would benefit from laying out how their products are sustainable to consumers, as opposed to only having a sustainability label or certificate. Moreover, companies are starting to link sustainability with other benefits consumers care about. For instance, real estate sustainability efforts are being communicated to customers as a means to ensure economic security through increased energy efficiency. Real estate companies are also exploring the 'S' aspect of ESG through boosting affordable housing and creating value for local communities. All in all, sustainability is about operating businesses in ways toward consumers' long-term wellbeing.

> Committing to sustainability is committing to the business as unusual. Given the uncertain and ever-evolving nature of climate change, companies would need to take on a comprehensive approach to sustainability in their decision-making processes, which often involves challenging the existing energy system. All these cannot be achieved without collaboration and dedication despite the many challenges ahead.

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