Breaking business barriers to Net Zero

An analysis of the key barriers sustainability decision-makers face in large businesses, and the solutions to help accelerate progress to Net Zero.

February 2024

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Executive summary

The transformation required to achieve Net Zero is not yet part of business-as-usual

Large businesses around the world are rising to the challenge of setting Net Zero targets: as of November 2023, over half of the world's 2,000 largest businesses have set Net Zero targets.[1]

However, the transformation required to meet Net Zero targets is not yet part of business-as-usual. To deliver a clear Net Zero transition, businesses must set out how they will pivot assets, operations and ultimately, entire business models towards Net Zero-aligned emissions reductions.[2] The challenges involved in delivering this transition should not be underestimated. It will require many businesses to overhaul highly complex and often international operating models and supply chains.

The Net Zero transition requires businesses to demonstrate high levels of ambition, action and accountability.[3]

Our research shows that businesses face barriers at each stage of the Net Zero transition planning journey

To understand *how* businesses can achieve this, it is vital to know more about the complex challenges sustainability decision-makers face, both internal and external. The Carbon Trust's Net Zero Intelligence Unit surveyed over 400 senior sustainability decision-makers in large businesses across the UK, Germany, the Netherlands, Sweden and Mexico on the biggest barriers to their Net Zero transition.[4]

This research revealed three critical barriers to business progress on Net Zero. Each relate closely to the three core principles of transition planning: ambition, action and accountability.[5]

Barrier to ambition: Making the internal business case for Net Zero

Nearly a third of businesses identified 'alignment of decarbonisation with other organisational priorities' and 'concern about the ability of the company to grow while also achieving Net Zero' as their top internal barriers to Net Zero progress.

Making the business case for Net Zero is the first step in delivering a credible transition. However, senior sustainability decision-makers also struggle to secure the internal expertise, budget, and senior-level engagement needed to translate climate ambition into a Net Zero transition plan.

Barrier to action: Tackling Scope 3 emissions

The difficulty of decarbonising Scope 3 emissions was one of the two most cited external barriers.

Businesses with long-term Scope 3 targets are less confident in their ability to meet their emissions reduction targets. For most businesses, Scope 3 emissions account for over 70% of their total footprint. Addressing these emissions is therefore critical to decarbonising value chains. However, businesses told us that cost, alignment with growth plans and the lack of standardised methodology for footprinting are major barriers to minimising their Scope 3 emissions.

Barrier to accountability: Concerns about external scrutiny of progress

Concerns about external scrutiny of progress towards Net Zero are high among businesses with less advanced climate targets.

This suggests that businesses in the earlier stages of climate action are 'greenstalling', where they get stuck in a state of 'analysis paralysis' on the best thing to do, instead of taking initial steps in the right direction. These businesses also identified verification and communication of their progress as the second-most difficult element of a Net Zero transition plan.

[1] Net Zero Tracker | Welcome and Just 4% of top companies meet UN climate target guidelines, study says | Reuters
[2] Climate Transition Plans - CDP
[3] TPT-Disclosure-Framework.pdf (transitiontaskforce.net)
[4] See the next section for the methodology.
[5] As set out by the Transition Plan Taskforce.

Breaking the barriers

Identifying these barriers is a vital step in understanding why global business progress towards Net Zero is not as fast as it needs to be. For business sustainability leaders and policymakers alike, these barriers should serve as a guide to where to place their attention, action and resource to drive meaningful progress.

Drawing on our research and the Carbon Trust's 20+ years' experience of advising businesses on their decarbonisation journeys, we recommend the following actions to help business leaders overcome these barriers:

1 Driving ambition

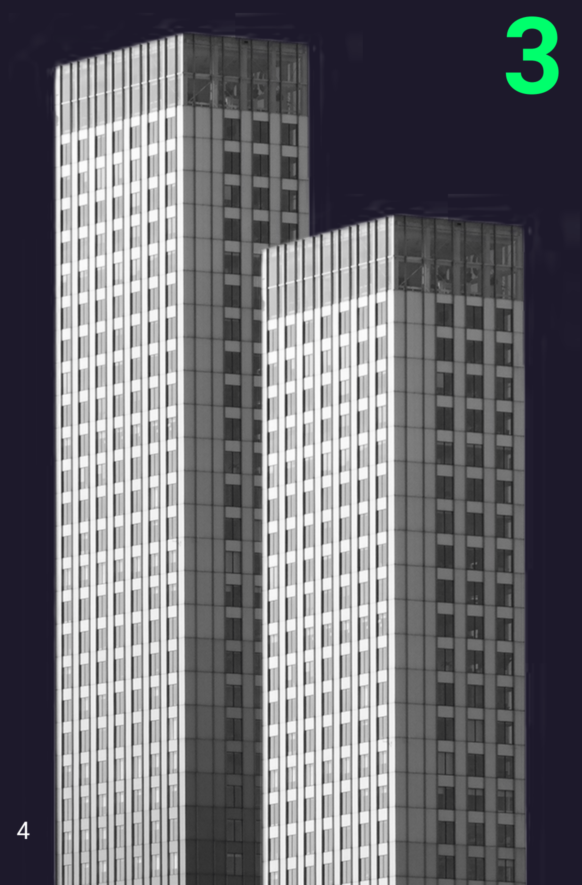
Adopt a new five-step vision for Net Zero-aligned business transformation, with a refreshed approach to senior-level and company-wide engagement, financial decision-making, growth plans and resource consumption.

2 Unlocking action

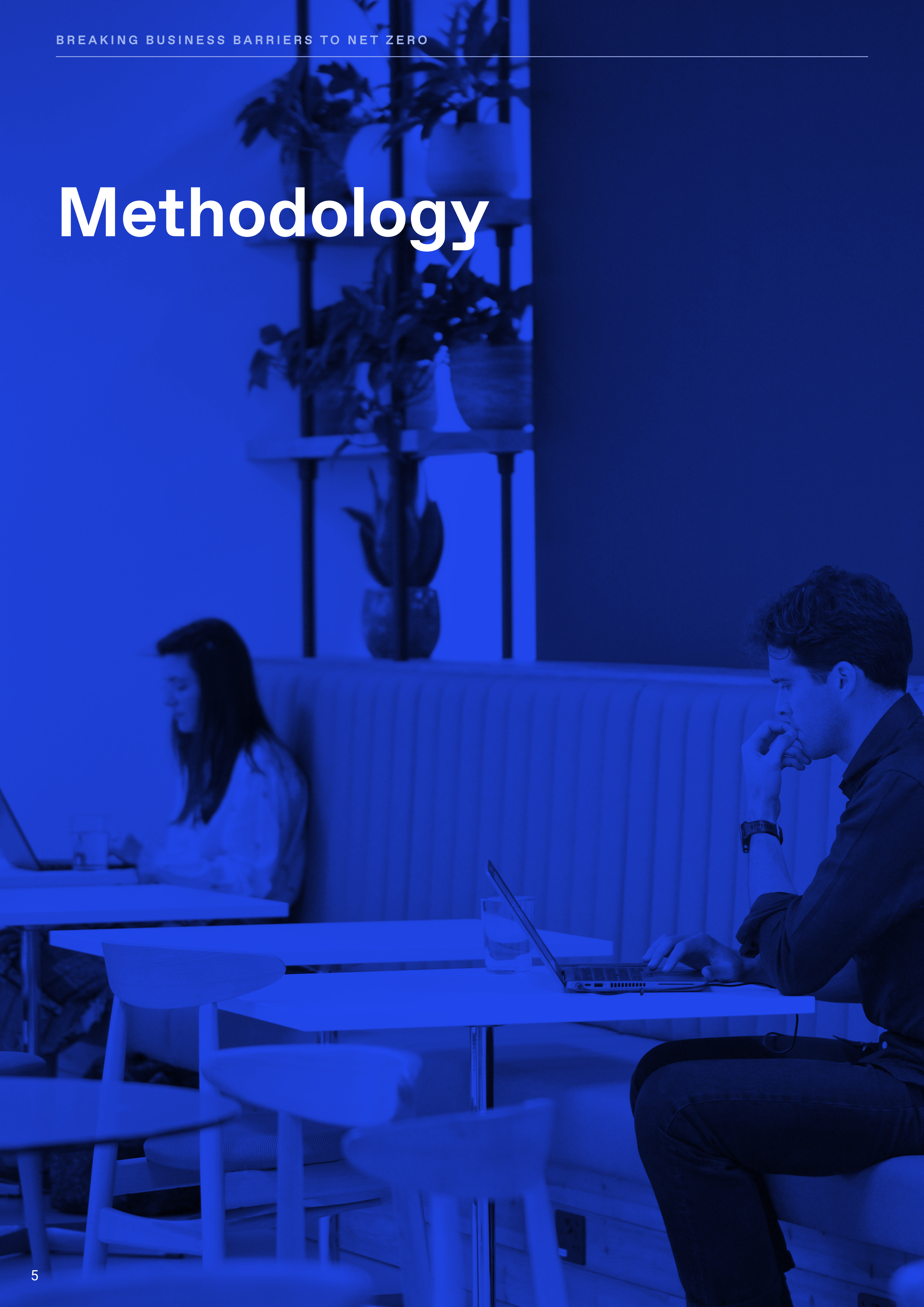
Embrace the power of collaboration when it comes to Scope 3 decarbonisation, by ensuring radical transparency on emissions data, developing long-term strategic partnerships with suppliers, launching innovation programmes with industry peers, and seeking financial support from Net Zero-aligned investment funds.

3 Embracing accountability

Move beyond 'analysis paralysis' on climate action and begin to take steps aligned with international best practice on Net Zero, and then communicate progress with honesty and accuracy.



Methodology



About this research

This report presents the findings of a survey of over 400 senior sustainability decision-makers in large businesses

Respondents were asked about their business's level of climate ambition, progress towards emissions reduction targets, and barriers to Net Zero.[6]

The global goal of limiting warming to no more than 1.5C above pre-industrial levels cannot be achieved without businesses playing a major role.

Despite a rise in Net Zero targets among businesses, particularly large businesses and multinationals, Net Zero transition plans are not being implemented at the pace and scale required.

To drive progress, it is important to understand the complex internal and external factors influencing business decision-makers – such as market challenges, policies and regulations, public behaviour and financial structures. **The aim of this research was to identify the key barriers holding large businesses back on their Net Zero transition.**

[6] The research surveys were carried out from May-June 2023 by B2B International on behalf of the Carbon Trust's Net Zero Intelligence Unit.

About the businesses

100%
had over 500 employees.

Committed to, or already taking, some climate action
Those not taking any action or unsure were screened out.

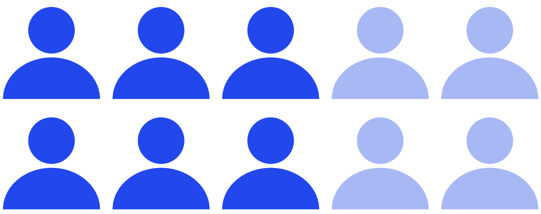
Operating in various sectors.

14%	ICT
13%	Retail and wholesale
12%	Manufacturing
10%	Financial institutions
7%	Power and energy (services)
44%	Other

Businesses were based in:

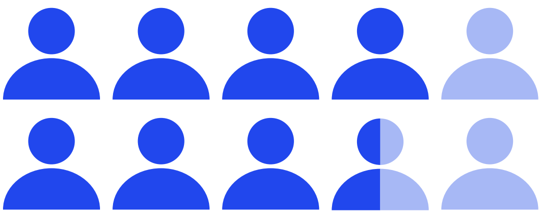
82 UK	**80** Germany	**80** The Netherlands	**80** Sweden	**80** Mexico

About the individual respondents



Senior

All were managers or above, with 57% either senior executives or company owners.



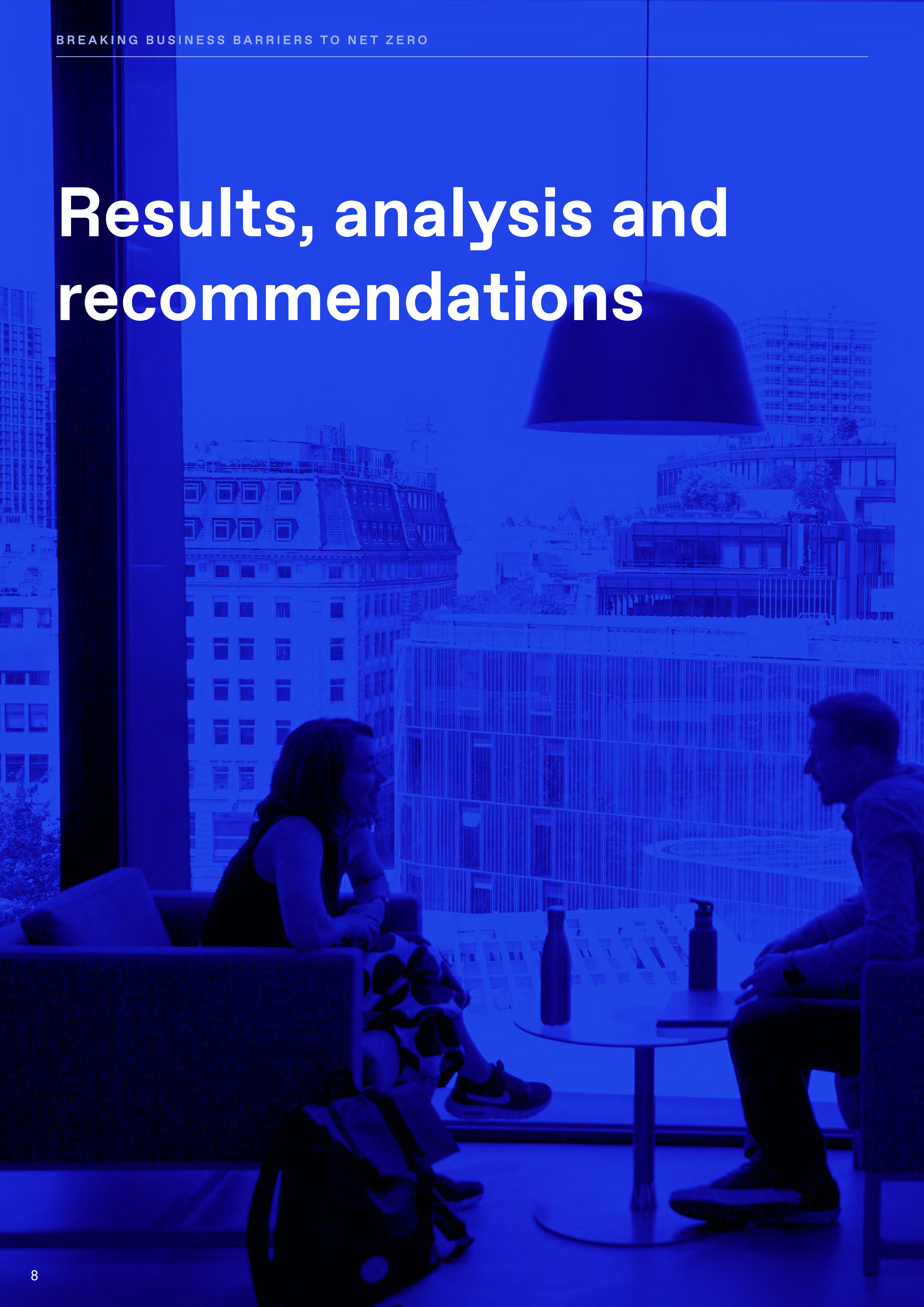
Experienced

Three quarters had spent over six years in a sustainability role, including 25% over ten years.

Responsible for sustainability decision-making

Only those with responsibility for sustainability decision-making were surveyed.

Results, analysis and recommendations

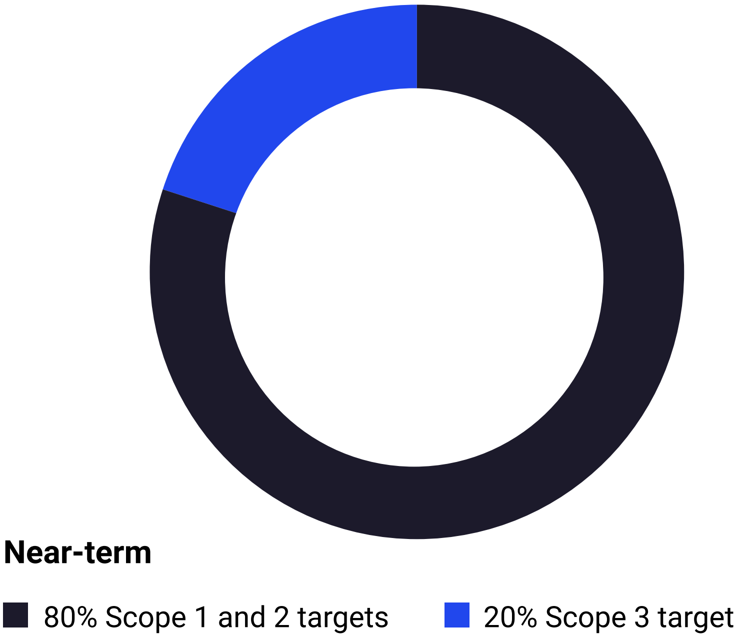


Decarbonisation progress: Targets, plans and confidence

While most businesses surveyed reported having targets for reducing their Scope 1 and 2 emissions, only 1 in 5 have a Scope 3 target in place.

The largest businesses we surveyed (those with >5,000 employees) were most likely to have set a near-term Scope 3 emissions reduction target.

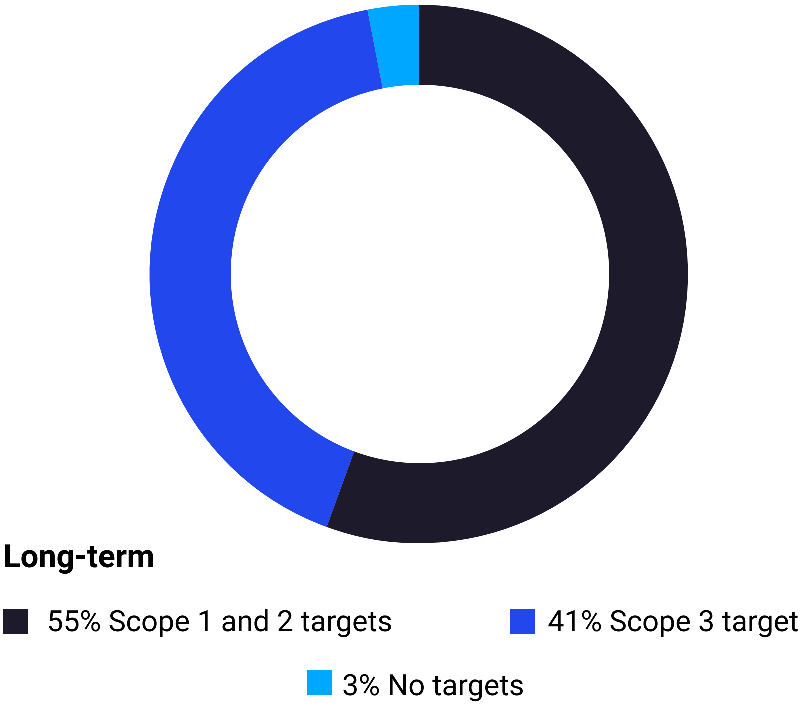
Near-term emissions reduction targets (for approximately 2030)



Reported progress on long-term Scope 3 targets showed an improved picture. Nonetheless, fewer than half of the surveyed businesses reported having a Scope 3 target.

The number was relatively higher in Germany where 1 in 2 businesses had a Scope 3 target, but lower in Sweden and the Netherlands where only a third had a target for minimising their Scope 3 emissions.

Long-term emissions reduction targets (for approximately 2050)



Businesses addressing their full value chain emissions are less confident in their ability to deliver emissions reductions.

63% of businesses expressed high levels of confidence (9 or 10 out of 10) in their ability to meet emissions reduction targets.

55% of businesses with long-term Scope 3 targets expressed high levels of confidence in their ability to meet emissions reduction targets.

Businesses with more complex transition plans also had less confidence in their ability to deliver their emissions reduction targets (see Figure 1). This suggests that as businesses progress towards Net Zero, they become more aware of the challenges ahead.

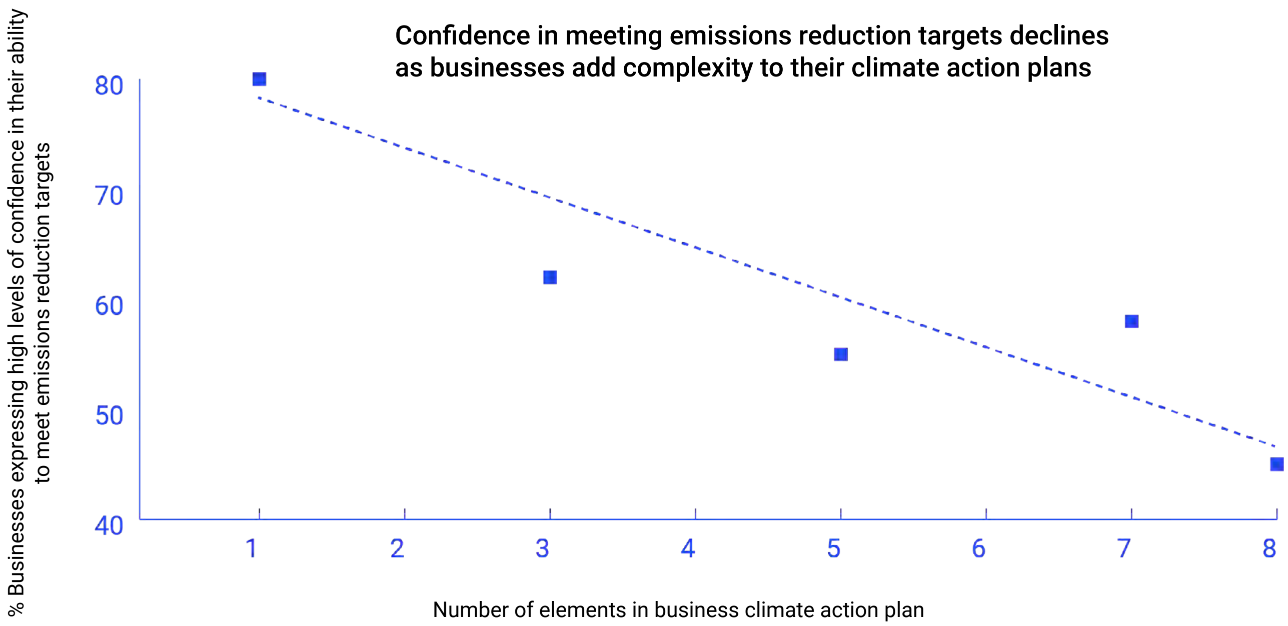


Figure 1: a comparison of the complexity of climate action plans and levels of confidence in delivering emissions reduction targets

While businesses are confident in their ability to address the 'low hanging fruit' of their Net Zero transition (for instance, often related to operational emissions within their direct control), their confidence in their ability to tackle more complex elements of the transition (for instance, emissions from supplied goods which are outside their direct control) is much lower.

Few of the businesses surveyed have created comprehensive transition plans to deliver Net Zero: only 40% of businesses reported having more than three elements in their plan.

We asked businesses which of the following elements were included in their emissions reduction strategies:

- IT and digital solutions
- Operations (e.g. manufacturing process and fugitive emissions)
- Verifying and communicating progress towards Net Zero
- Procurement of renewable electricity or power purchase agreements
- Product end of life, reuse and recycling
- Neutralisation strategy (e.g. investment in greenhouse gas removal credits)
- Product/services or business model innovation
- Supplier and/or customer engagement
- Supply chain and purchased goods
- Transport, logistics and/or business travel
- On-site renewable generation
- Buildings and services
- Beyond Value Chain and/or avoided emissions

01 Barrier to ambition

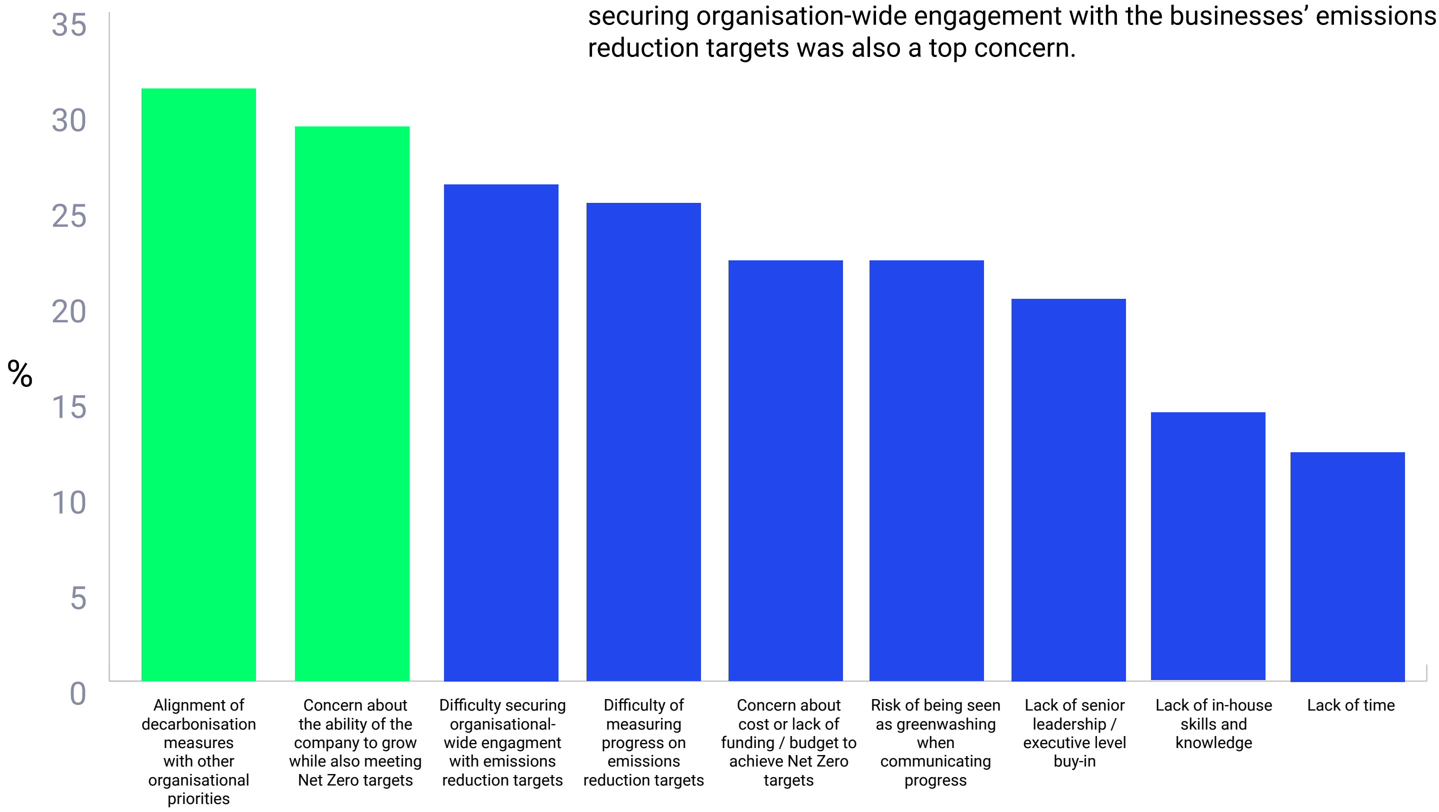
Making the internal business case for Net Zero

Our research revealed that sustainability professionals struggle to make the internal business case for Net Zero as it competes for attention with other business priorities and growth targets.

Alignment with other organisational priorities, including growth, were the most commonly cited internal barriers to the Net Zero transition

Despite the critical need to drive progress towards Net Zero, businesses face many competing priorities when setting their level of climate ambition internally. Various factors influence professionals' decision-making process, including pressure from shareholders, investors, customers, governments and regulators, as well as financial and economic considerations.

'Alignment with other organisational priorities' and 'concern about the ability of the company to grow' were the two most commonly cited internal barriers businesses face to progress on Net Zero. Difficulty securing organisation-wide engagement with the businesses' emissions reduction targets was also a top concern.



While the Intergovernmental Panel on Climate Change (IPCC) 2023 'Synthesis Report' shows that delayed action to reduce global emissions would lock in a high probability of 'stranded assets and cost-escalation, reduced feasibility, and increases in losses and damages',[7] our research indicates sustainability leaders struggle to build the internal case for action, both for the risks of inaction as well as the potential opportunities of leading the Net Zero transition.

The results also suggest that sustainability leaders are struggling with two key elements needed to support the internal business case for transitioning to Net Zero:

1 **A limited level of engagement with Net Zero at a senior-level and throughout the organisation, as well as insufficient staffing and expertise to create and deliver a Net Zero transition plan.**

2 **Concerns about budgets, costs and return on investment in low carbon solutions, which indicate that Net Zero must go hand-in-hand with a continued commitment to protect the bottom line.**

Less than half of businesses feel they have sufficient leadership engagement to deliver a Net Zero transition plan

Our findings suggest that businesses struggle to progress on Net Zero due to a lack of engagement from senior internal decision-makers and a lack of dedicated staffing and expertise.

40% of respondents completely agree they have sufficient engagement at board-level to deliver a Net Zero transition plan.

41% of respondents completely agree they have the right level of expertise to create and deliver a Net Zero transition plan.

45% of respondents completely agree they have the right level of internal staffing to deliver a Net Zero transition plan.

90% of respondents say their business's climate strategy is influenced by the policy and regulatory environment. To develop a business strategy that reflects long-term priorities, they need policy to provide certainty over a period of more than just five years.

> **"The most challenging innovation is transformative innovation. It involves looking into possibilities outside of a company's typical industry."**
>
> - Owner, Power and energy company, UK

[7] AR6 Synthesis Report: Climate Change 2023 — IPCC

International best practice from the UN Climate Champions Race to Zero Campaign highlights senior board-level engagement as a key element of the 'Starting Line' criteria for credible progress to Net Zero. Race to Zero calls for businesses to set a 'pledge' at the head-of-organisation level to reach Net Zero as soon as possible and by 2050 at the latest, and then publish transition plans within 12 months and regularly in the lead up to 2030.[8] In addition, the ISO Net Zero Guidelines clearly state the role that an organisation's leadership should play in strategic direction, oversight, support and resourcing to set and achieve targets, as well as being held directly accountable for a business's Net Zero transition.[9]

Engagement and accountability at a senior leadership level are vital given that delivering Net Zero will require transformational change at an operational and strategic level for many businesses. Without senior stakeholder engagement, it will be challenging for sustainability decision-makers to make the case for strategic alignment of Net Zero with other organisational priorities, such as tapping into emerging consumer trends, expanding into new markets or identifying new suppliers. From changes in company policy to drive lower carbon procurement decisions, to wholesale strategic redirection of the business model, the Net Zero transition requires leadership to ensure day-to-day practices within the business reflect organisation-level targets. **Nonetheless, only a third of respondents told us that 'product/service or business model innovation' currently forms part of their climate action plans. This suggests that most businesses are not yet addressing the fundamental strategic questions that the Net Zero transition should raise.**

Businesses pointed to the policy and regulatory environment as an important enabler of this long-term strategic alignment of business plans with Net Zero. Our research indicates that policy which only lasts the length of a typical electoral cycle is not enough to support this kind of strategic planning.

90% of businesses surveyed said they needed policy certainty over a period of at least five years. The majority specified 10-20 years as the ideal timeframe.

"We lack the solutions and the budget in the company to achieve the same production and process figures using sustainable technology."

- Senior Executive, ICT company, Germany

[8] Race to Zero Criteria - Climate Champions (unfccc.int)
[9] ISO - Net Zero Guidelines

Less than half of businesses say they have enough budget to deliver a Net Zero transition plan

Throughout our research, a number of findings added detail to the barrier of reconciling Net Zero with growth targets. In particular, businesses identified the difficulty of ringfencing the Net Zero transition and the importance of any investments making financial sense for businesses:

40% of businesses globally and just 24% in the UK, completely agree they have enough budget to deliver Net Zero. Operational change is named as the most difficult and costly element of Net Zero transition planning.

2/3 of businesses view the cost of borrowing to invest in low carbon solutions and the expected rate of return as barriers to their Net Zero progress.

#3 A 'lack of existing or available technological solutions' was the third most cited external barrier to Net Zero.

#1 The most commonly cited policy that would support business decarbonisation was 'tax reliefs and capital allowances to support investment in decarbonisation solutions.'

The future trajectory of many businesses is guided primarily by delivering shareholder returns. Many businesses struggle to capture and articulate the long-term value of transitioning to Net Zero when faced with the pressure to provide short-term shareholder returns.[10] Our research findings indicate that, for many businesses, any steps towards Net Zero cannot conflict with the prevailing need to cut costs and protect the bottom line. Businesses' policy preferences suggest that businesses are reluctant to invest in early-stage technologies as a 'first mover' without government support.

[10] Cambridge Institute for Sustainability Leadership, 2020, Targeting Net Zero: A Strategic Framework for Business Action

Breaking the 'business case' barrier

A five-step vision for Net Zero-aligned business transformation

Our research highlights the serious challenges businesses face in identifying and articulating the internal business case for transitioning to Net Zero. Sustainability teams and decision-makers often feel they are swimming against the current within their business. This creates an unnecessary tension between decarbonisation and the business model, when in fact the transition to Net Zero needs to be central to the business model and viewed as an opportunity for sustainable growth. Businesses that thrive in a Net Zero economy will be the ones that sooner rather than later make the conceptual leap from seeing decarbonisation as 'important', to seeing it as 'critical' to business performance.

However, breaking out of business-as-usual requires radical new ways of working. **To encourage this, we set out a vision for Net Zero-aligned business based on the following five-step vision:**

1 Undertake a climate compatibility checkpoint for your business model and move beyond a 'compliance mindset'

Successfully making the internal case for Net Zero begins with getting to grips with how climate change could affect your business (for instance, risks to your supply chain) and how you might unlock opportunities in the Net Zero transition to maximise sustainable growth, through a climate compatibility checkpoint. Disclosure of climate-related risks and opportunities, and your strategy to address them, is now mandatory for large businesses in many countries, including the UK, to support investor decisions.[11] However, reporting is not just a 'tick box' exercise. Collecting and analysing the information required for reporting will help you to answer key strategic questions that will continually reveal new insights that should be used to adjust your Net Zero transition plan.

2 Start at the top and cascade down. Every department has a role to play in the transition to Net Zero

The most senior decision-makers in your business need to become experts on your organisation's climate impact and how to turn intent into action across all business units.

In particular, the C-suite should receive comprehensive training on climate risks and the Net Zero transition within three months of taking up their roles. The board, including non-executive members, also have a key role to play. Systematically collect information on how climate-related environmental, regulatory, and consumer behaviour changes are affecting your business. Then feed these insights into regular board-level discussions on future business plans and targets.

Once senior decision-makers understand the climate risks, embed Net Zero at the heart of your business planning processes. This will help drive organisation-wide engagement, as you increase awareness of how daily decisions affect progress towards your climate targets. Make sure each department understands its role in the transition to Net Zero and make it a business priority to regularly check up on implementation.

3 Allocate a defined percentage of revenue for investment in Net Zero-aligned innovations

Climate-aligned business decisions are financial decisions. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) should chart a path towards Net Zero by ringfencing a percentage of revenue towards activities that maximise decarbonisation, and innovation in Net Zero-aligned business opportunities. The CEO and CFO also need to ensure that the business exits activities that are fundamentally misaligned with Net Zero, for instance a reliance on fossil fuel-based power. The CFO should consider how to align the whole business with this mission, for example by introducing an internal carbon price.

[11] For more information on climate-related risk and opportunity disclosure, including on the new ISSB standards, see our guidance in World Business Council for Sustainable Development's The Climate Drive: Get started - Net Zero Guidebook (EN) (theclimatedrive.org)

4 Drive a wedge between your business model and resource consumption

The thriving businesses of the Net Zero economy will have a renewed approach to resource consumption. To deliver long-term commercial impact, challenge your business to go beyond short-term rewards and seek out sustainable business growth by assessing the future of your sector and how it can decouple from resource consumption. For example, applying circular economy principles to business models can both reduce emissions and create new sources of revenue, as well as greater value to customers. For instance, transitioning from a company that rents products rather than sells them is just one way in which this might be achieved.

5 Recognise the limits and volatility of future growth

The climate crisis is disrupting business-as-usual. Few businesses will be able to achieve linear growth within their current business models between now and 2050 and those that plan for this will likely be unprepared for the changes too. Instead, many businesses will have periods of growth, periods of plateauing while business models are refined and reinvented to align with Net Zero priorities, followed by new periods of growth. The businesses that embrace this non-linear, creative, and adaptive growth path will unlock the opportunities of the Net Zero transition. However, for some businesses, a more fundamental rethink will be required due to their sector's low value creation potential in a Net Zero economy, such as the oil and gas sector. Businesses in these sectors will likely need to pivot to adjacent sectors.

02 Barrier to action

Tackling Scope 3 emissions

Our research revealed that businesses are struggling to reduce the largest part of their emissions, Scope 3 emissions, due to high costs and inconsistencies in carbon footprinting.

'Lack of supply chain engagement and Scope 3 decarbonisation' was one of the two most commonly cited external barriers to Net Zero

For many businesses, Scope 3 emissions account for over 70% of total emissions. It is therefore crucial that all businesses have a plan in place to reduce these emissions. However, our research found that Scope 3 decarbonisation was one of the two most cited external barriers to Net Zero.

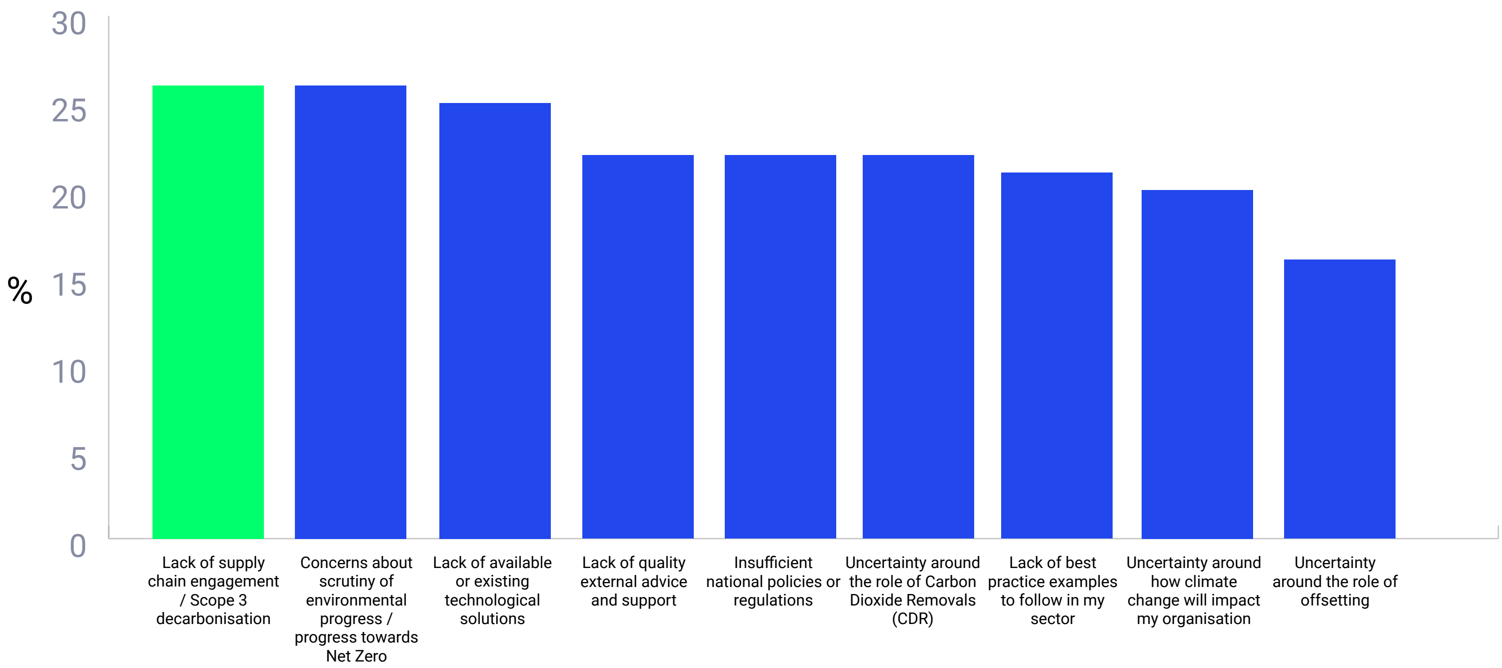


Figure 3: External barriers faced by large businesses. Q. 'Please select the top two biggest barriers to your organisation's progress on Net Zero.' n=402.

This view was expressed by businesses with and without long-term Scope 3 targets, suggesting that tackling Scope 3 emissions is a challenge at both a target-setting and implementation stage.

What are Scope 3 emissions?
Scope 3 emissions are indirect emissions from sources outside a business's direct control, such as those from activities such as procurement of goods and services and use of sold products.

Our research indicated that when businesses begin the process of tackling Scope 3 emissions, their confidence in being able to meet their climate targets drops. Businesses with long-term Scope 3 emissions reduction targets were significantly less likely to express high levels of confidence in meeting their emissions reduction targets.

Our research found that large businesses are being held back on reducing Scope 3 emissions due to the:

1 **High costs and investment required to decarbonise Scope 3, as well as the difficulty of aligning emissions reduction targets with business growth plans.**

2 **Lack of a standardised methodology for measuring emissions in the supply chain.**

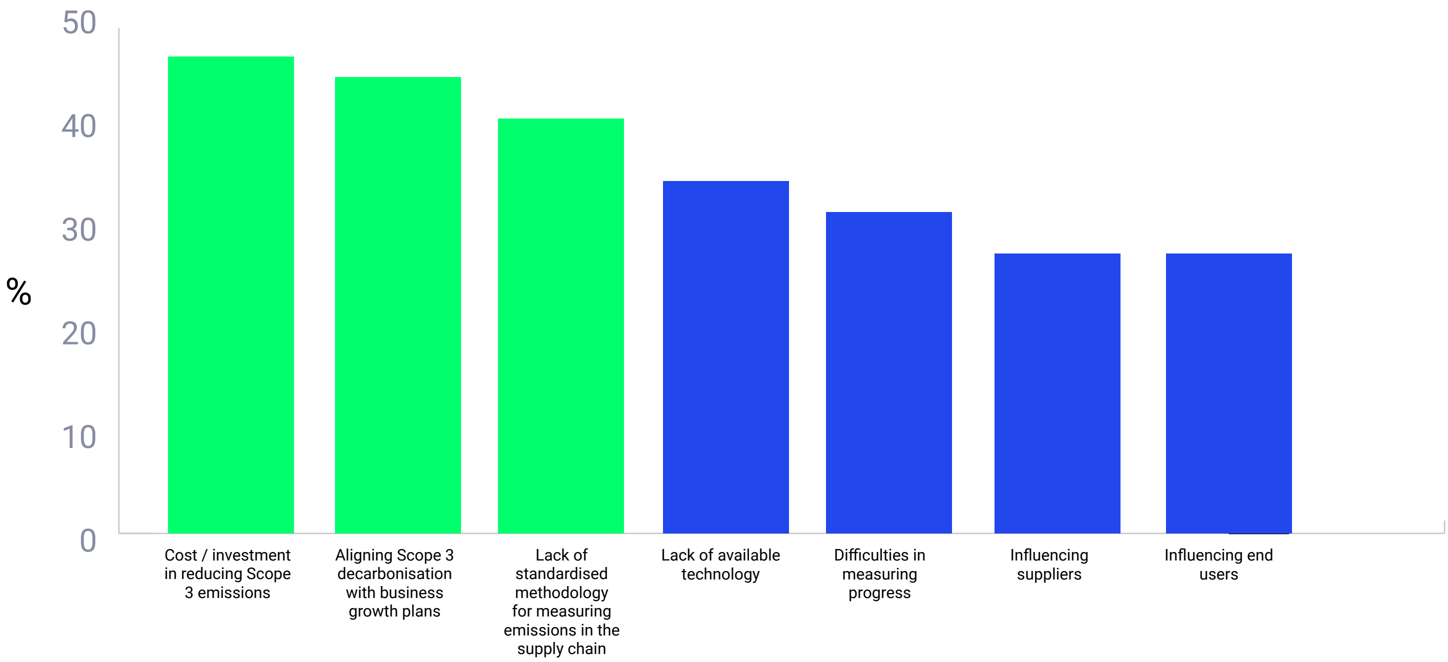


Figure 4: The challenges of reducing Scope 3 emissions. Q. 'What are the three biggest challenges you face when it comes to reducing your Scope 3 emissions?' n = 166 (those with a Scope 3 target).

"Decarbonising the supply chain requires far-reaching transformation processes and high budgets."

- Board Member, ICT Company, Germany

'Costs and investment' and 'alignment with growth plans' were the most cited challenges for Scope 3 decarbonisation

Scope 3 emissions are intrinsically linked to the selling of products and services, which either have 'embedded' carbon emissions from their production and delivery, or result in emissions during their use and consumption. Reducing these emissions therefore involves added complexity and potentially significant costs. Businesses often need to pivot towards procurement of lower carbon goods and services within the supply chain, which may initially come at a higher cost, or invest in supply chain decarbonisation solutions that will only deliver financial returns over a long timeframe. This cold financial reality can make it harder to make the internal business case for steps that would help to reduce Scope 3 emissions but increase operating costs or squeeze profit margins. Indeed, the second most commonly identified barrier to Scope 3 decarbonisation was '**alignment with business growth plans**', suggesting that businesses are struggling with the potential financial implications of decarbonising Scope 3.

The 'lack of a standardised methodology for measuring emissions in the supply chain' also presents a challenge

Businesses need to share consistent and comparable data on emissions within supply chains, so they can identify decarbonisation levers over time and measure progress towards their Scope 3 emissions reduction targets. However, this finding indicates that large businesses struggle to access high quality supply chain emissions data. This is likely a result of variations in the approach to calculating the carbon footprint of products, and the lack of primary emissions data from suppliers.

However, this will change as large businesses are increasingly required to disclose their emissions, including Scope 3 emissions. Regulatory interventions such as the EU's Corporate Sustainability Reporting Directive (CSRD) and initiatives such as the Net Zero Public Data Utility and the World Business Council for Sustainable Development's Partnership for Carbon Transparency (PACT) will help to create more transparency on emissions across the global economy. As Scope 3 emissions data improves, businesses will be able to refine their emissions reduction strategies by identifying goods and services with lower carbon footprints.

Breaking the 'Scope 3' barrier

Embrace the power of collaboration

The challenges businesses identified to Scope 3 decarbonisation in our research are powerful:

- The cost of investing in lower carbon goods and services can be prohibitive.
- Understanding the relationship between the growth of a sector and Scope 3 decarbonisation pathways can be a complex challenge.
- Comparing supply chain data to identify real environmental leaders can be an impossible task.

These real challenges need real solutions. This often requires a 'think big' collaborative approach rather than a focus on incremental changes. **There are three main steps businesses can take to drive the solutions needed on Scope 3.**

1 Develop long-term strategic partnerships with your suppliers, and take a hard line on those that don't meet your environmental expectations

Short-term relationships with suppliers do not create the right enabling environment for investment in decarbonisation solutions. Large businesses need to bring their suppliers on the Net Zero transition journey with them by developing long-term strategic partnerships that give suppliers the confidence and support to invest in decarbonisation solutions. Supplier engagement strategies should be tailored to your sector and unique supply chain – all supply chains are different, and your approach should complement your degree of influence. Collaboration with your competitors (pre-competitive collaboration) can also help to drive alignment on the standards suppliers are held to across the sector, providing further direction to their investment decisions.

After establishing these long-term partnerships, take a hard line with any suppliers that do not meet your environmental expectations. Be prepared to delist those that fail to meet emissions reduction targets. In our experience, suppliers that have been delisted often, work hard to reform their approach in order to be relisted. As a large business, you have the ability to catalyse climate action across your sector by both 'pushing' (taking firm action on suppliers) and 'pulling' (providing adequate support for the creation of new solutions).

2 Come together with your competitors to identify the solutions needed by the sector, and collaborate to make them a reality

Reducing Scope 3 emissions is by definition a common and overlapping challenge across multiple players in a value chain. Ultimately, Scope 3 decarbonisation is only possible if a whole industry invests in, and develops, cost-effective low carbon solutions. Your business will have more impact if it collaborates with peers on common challenges, pools resources, and expands market power through collective action.

The first step in stimulating sector-wide action is ensuring your business regularly shares its emissions data in a standardised, comparable format. Your business should ensure it contributes to emerging emissions data frameworks such as the Partnership for Carbon Transparency to help improve transparency and accountability on Scope 3 emissions.

Armed with data on your Scope 3 emissions, you can then use your influence as a large business to bring industry players together to launch innovation programmes to unlock sector-wide decarbonisation solutions. By bringing competitors in the sector together, your business can support the transition of the whole sector. A strong example of this is the collaboration between leading technology companies – Amazon, Meta, Microsoft, Samsung and Sky – to tackle the emissions of internet-connected devices. Such industry-level 'pre-competitive' collaboration can also yield significant benefits in terms of scale and return on investment for participating organisations.

3 Look to investment funds for financial support on Scope 3 decarbonisation solutions

There are several investment funds that support businesses' Net Zero transitions by offering capital for sustainability-linked bonds. These funds could be an important source of financing for your business's research and development into Scope 3 decarbonisation solutions, provided the terms of the bond are linked to performance on Scope 3 emissions reduction targets. Your business may need to meet more stringent reporting and disclosure requirements and set KPIs directly linked to performance on emissions reduction targets to be eligible for sustainability or transition-linked financing.

03 Barrier to accountability

Concerns about external scrutiny of progress

Businesses need to be transparent about their Net Zero transition, but we found that concerns about external scrutiny of progress are holding businesses back from taking the first steps on climate action.

'Concerns about external scrutiny of progress' was one of the two most commonly cited external barriers to Net Zero

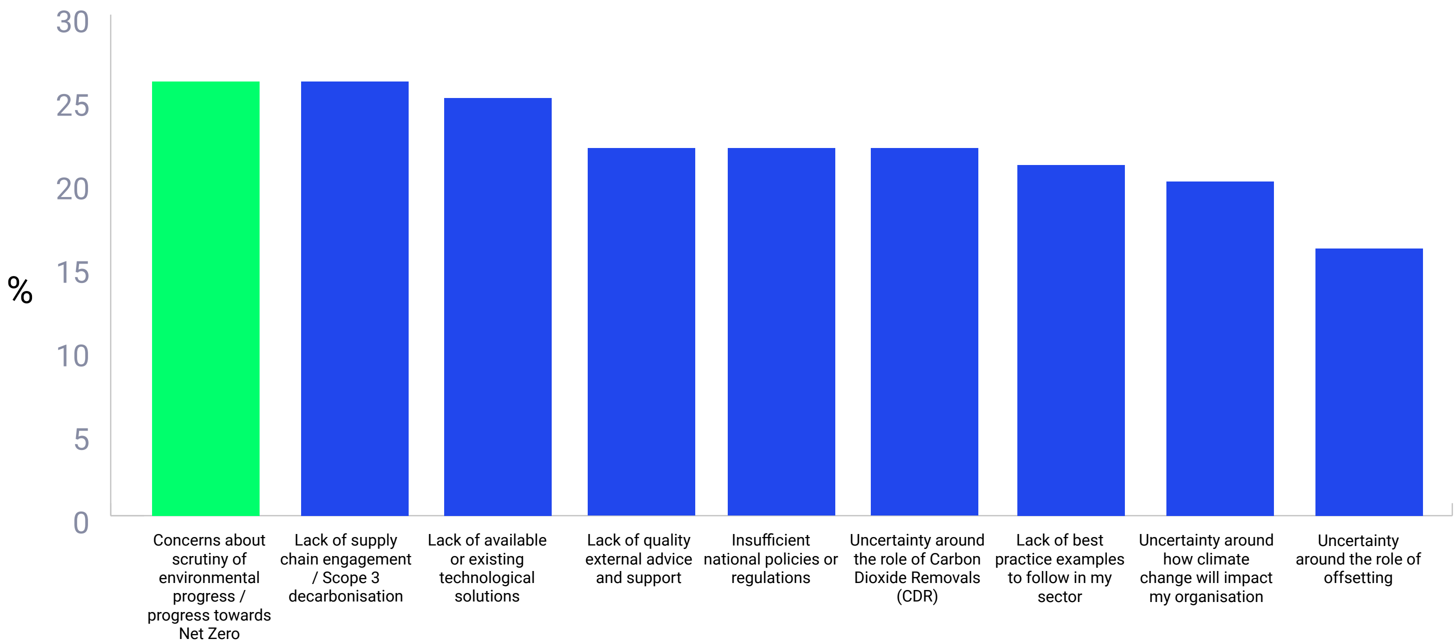


Figure 5: External barriers faced by large businesses. Q. 'Please select the top two biggest barriers to your organisation's progress on Net Zero.' n=402.

Clear, honest and accurate communication on progress towards Net Zero is an essential part of any business's climate transition. Greenwashing risks undermining investors', customers', and policymakers' faith in the integrity of corporate action on Net Zero. 'Greenhushing' – when businesses choose not to communicate their climate action to avoid backlash – presents a similar risk to the Net Zero transition. It decreases information flows between the private sector and policymakers, which are essential to both acceleration of action and accountability.

However, **our research indicates that a third force might now be at play for businesses: 'greenstalling'**, where the fear of getting climate action wrong is resulting in a delay to taking climate action. **Greenstalling is where businesses are caught in a state of 'analysis-paralysis' where the legitimate desire to get Net Zero 'right' is instead becoming a barrier to taking well-intentioned steps in the right direction.**

Our research found that businesses with more advanced climate targets (i.e. long-term Scope 3 emissions reduction targets) do not view concern about scrutiny as a major barrier to progress on Net Zero. For these businesses, external scrutiny was only the fifth biggest external barrier to Net Zero progress. This suggests that businesses in the earlier stages of climate action are most affected by greenstalling.

Across all respondents, our research found that communication of progress on Net Zero is seen as:

1 An area carrying significant risk from both a regulatory and reputational perspective.

2 One of the most difficult elements of Net Zero transition planning.

4 in 5 businesses are concerned about regulatory and reputational risks when communicating progress towards Net Zero

Most businesses surveyed agreed that communication of progress towards Net Zero carries risks from both a regulatory and reputational perspective.

80% of respondents say that potential regulation on communication of progress is a concern for their business.

79% of respondents somewhat or strongly agree that greenwashing presents a major reputational risk to their business.

There is growing regulatory pressure on businesses to improve the accuracy and accessibility of information on their climate progress. In the EU, for example, the Green Claims Directive introduces requirements for businesses to substantiate environmental claims – such as claims on product packaging – with scientific evidence.

There is also increasing media and civil society scrutiny of business's progress towards Net Zero, raising the risk of businesses being called out for greenwashing. For instance, the annual Corporate Climate Responsibility Monitor from the New Climate Institute applies a rigorous methodology to the climate pledges made by the top 25 global companies by revenue to evaluate their transparency and integrity.[12]

[12] Corporate Climate Responsibility Monitor 2023 | NewClimate Institute

> The current tools available to measure and record performance are somewhat lacking."
>
> - Owner, Education Company, UK

Verification and communication of progress is viewed as second most difficult element of Net Zero transition planning

When asked to identify the most difficult element of their business's Net Zero transition planning, respondents' second most common choice was 'verifying and communicating our progress towards Net Zero'.

Just 43% of respondents felt completely confident in their business's ability to accurately communicate progress towards Net Zero.

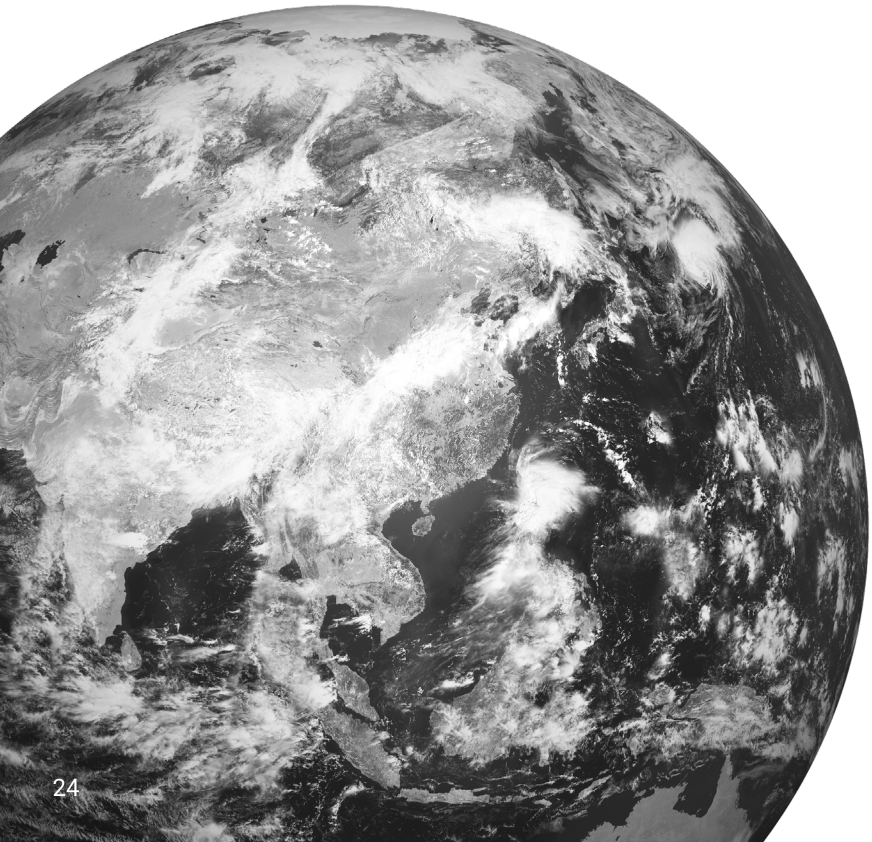
88% of respondents at least somewhat agreed that independent external validation and accreditation would add credibility to their business's communication of progress towards Net Zero.

Businesses with more advanced climate targets did not view external scrutiny as such a significant barrier

Despite external scrutiny of progress being a top barrier across all businesses surveyed, our analysis revealed that this view was not shared by businesses with long-term Scope 3 targets.

For businesses with more advanced climate targets, a 'lack of available or existing technological solutions' and 'insufficient national policies and regulations' were the most commonly identified external barriers to Net Zero.

These businesses also did not consider communication of climate progress as one of the most difficult elements of their Net Zero transition planning. Instead, they highlighted operational change, greenhouse gas removals, and IT and digital solutions as the most difficult elements.



Breaking the 'greenstalling' barrier

Move beyond 'analysis paralysis' to identify credible actions and communications strategies

Net Zero cannot be an empty promise, so businesses are right to take accountability for their Net Zero transition seriously. However, it is worrying alarming that businesses with less advanced climate targets rank concern about external scrutiny among their biggest barriers to achieving Net Zero.

This finding suggests that some businesses are in a state of 'greenstalling' – where they fear the consequences of doing and communicating the wrong thing so much that they avoid taking climate action altogether.

The regulatory and reputational risks of communicating on Net Zero progress are critical, but fear of scrutiny cannot be used as a reason not to act. To break this barrier, businesses need to focus on action and communication:

Take action

1 Begin by taking steps that align with best practices on Net Zero

There is increasing international alignment on the criteria for credible action on Net Zero, including the comprehensive ISO Net Zero Guidelines, the Science Based Targets initiative's Net Zero Standard, and the recommendations in the UN High-Level Expert Group's 'Integrity Matters' report. There is now enough consensus on the meaningful steps that businesses can take to enable your business to move beyond 'analysis paralysis'. Use these standards and guidelines to build confidence internally on the effective steps your business can take to progress on Net Zero in line with best practice. Read more about the ten criteria for credible Net Zero in this comparative guide.

Your business cannot do everything at once. Focus first on the areas that can drive the greatest impact, based on a rigorous assessment of the risks and opportunities for your business, and take action there, in line with best practice.

2 Work with industry peers to define what credible progress looks like in your sector, and create a safe space for sharing challenges and opportunities

Progress will look different for each sector. Come together with your industry peers to establish a shared understanding of what meaningful progress looks like for your sector, including the likely viability of your sector's typical business models in a Net Zero economy. This collaborative approach will also create a safe space in which you can express the challenges your business faces as part of its Net Zero transition and explore the opportunities for working together as a sector to overcome them. Achieving Net Zero is hard and will rely on many factors outside your direct control.

Having an honest and productive dialogue with stakeholders and communicating shared issues and challenges can help your business learn and build trust. As a group, you can then at times, communicate with one voice to enable innovators, investors and policymakers to provide the support your sector needs.

3 Remain vigilant and flexible as new technologies develop and regulations change

The best practice of today is unlikely to remain entirely the same. Be prepared for change, review your plans regularly and adapt your approach in response. This can help your business to be at the forefront of cutting-edge new technologies and solutions that drive the most meaningful emissions cuts.

Communicate with transparency

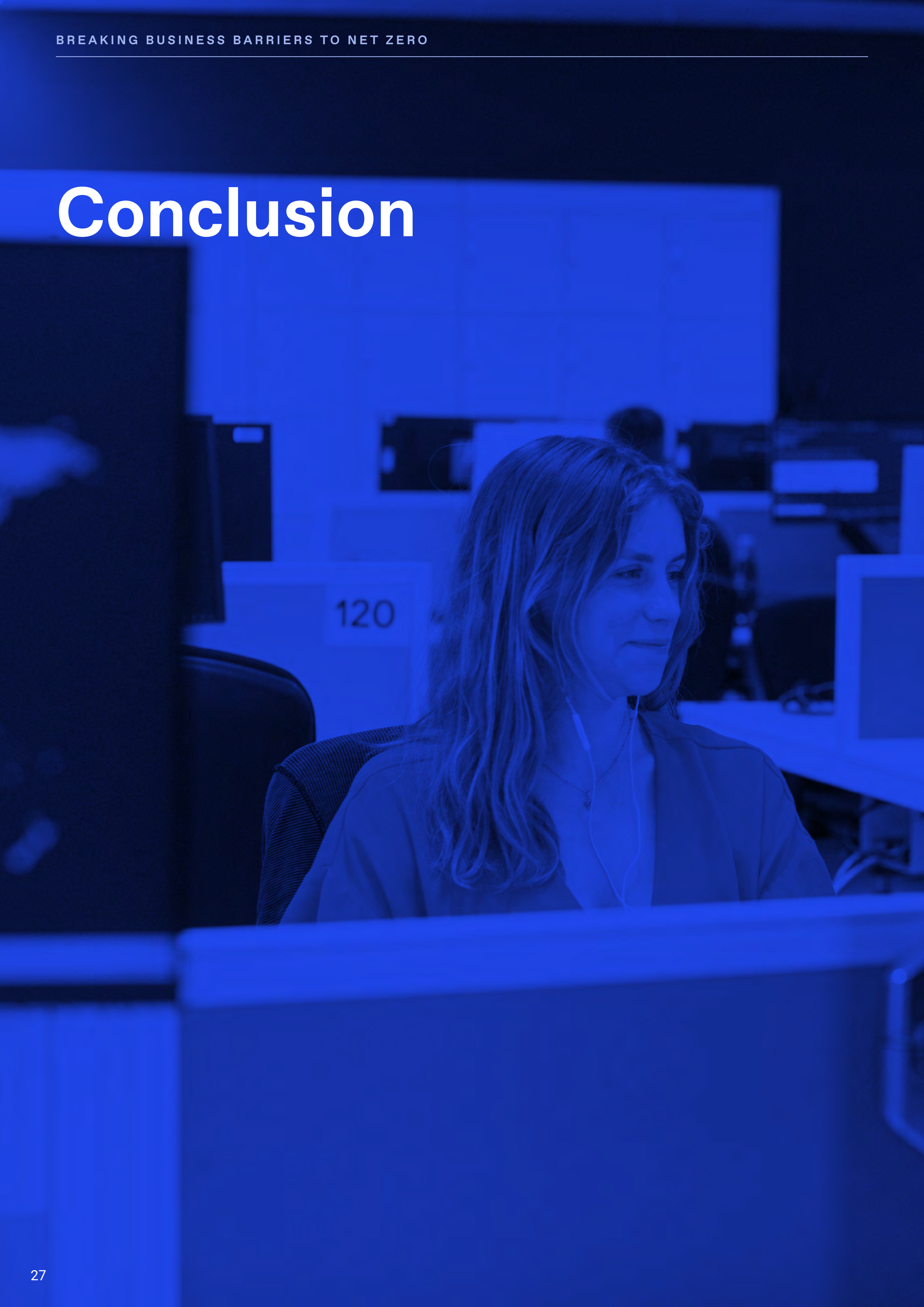
1 Seek independent external validation and verification of your progress towards Net Zero

When publishing your greenhouse gas emissions footprint or making claims about your progress towards climate targets, seek independent verification to ensure your claims are accurate and credible. This will give you the confidence needed to be more transparent about your progress. It will also help to improve industry-wide data flows on emissions reductions.

2 Communicate your progress with honesty and accuracy, including being open about challenges and critical success factors

Be truthful about what you have and haven't achieved and what you are still working on. Avoid positioning your climate action as a completed task, but rather as a milestone in the journey to Net Zero. Internal audit teams will have a critical role to play in this process, as they will be able to ensure the accuracy of data and claims. This briefing contains more tips on countering greenwashing in your communications.

Conclusion



To help break barriers, businesses should put pen to paper on a Net Zero transition plan

Our research shows that for large businesses, the transition to Net Zero is affected by internal and external barriers that must be broken to catalyse rapid change.

Internally, sustainability leaders struggle to make the business case for Net Zero due to competing organisational priorities and stretching growth targets. Limited budgets and insufficient senior stakeholder engagement contribute to this inability to make Net Zero business-as-usual at all levels of the organisation.

On external barriers, our research revealed that businesses struggle with the extensive action required to reduce the vast majority of their emissions (Scope 3) largely due to high costs and the lack of a clear, standardised methodology for measuring carbon footprints in the supply chain. Additionally, we found that businesses with less advanced climate targets are held back by their fear of external scrutiny and are wavering on climate action.

Identifying these barriers is a vital step in understanding why global business progress towards Net Zero is not as fast as it needs to be. For business sustainability leaders, these barriers should serve as a guide to where they should concentrate their efforts and resources to drive meaningful progress.

Our research points to a need for business leaders to:

1. Adopt a new five-step vision for Net Zero-aligned business transformation, with a refreshed approach to senior-level and company-wide engagement, financial decision-making, growth plans and resource consumption.

2. Embrace the power of collaboration when it comes to Scope 3 decarbonisation, by ensuring radical transparency on emissions data, developing long-term strategic partnerships with suppliers, launching innovation programmes with industry peers, and seeking financial support from Net Zero-aligned investment funds.

3. Move beyond 'analysis paralysis' on climate action and begin taking steps aligned with international best practice on Net Zero, and then communicate progress with honesty and accuracy.

Fundamentally, the barriers faced by businesses reflect the importance of going beyond a 'business-as-usual' approach to transition to Net Zero. The transition will require new ways of working, reinvented business models, radical collaboration and a commitment to honest, ongoing communication.

For businesses leading the way to Net Zero, this will require putting pen to paper on a long-term transition plan, with clear plans for how the business will demonstrate ambition, action and accountability on its journey. This is an opportunity for progressive businesses to chart a new path to sustainable growth that will enable them to thrive in the Net Zero economy.

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