Building the business case *for sustainability*

A practical guide for business connecting opportunities and financial drivers

World Business Council *for Sustainable Development*

In collaboration with:

KPMG

Contents

Foreword

by WBCSD

The world is turning to business for sustainability solutions. Business leadership integrating the sustainability imperatives of climate, nature and equity action into corporate strategies, operating plans and decision making is essential. Significant opportunities can be found in business model, product and project innovation and delivery. But it can be challenging to know where to start, what options are available, which solutions to prioritise and how to translate sustainability into the financial language of business and investment.

This guide responds to that dilemma, connecting specific sustainability opportunities across climate, nature and social priorities with financial business drivers including revenue, cost and investment. This translation is essential to enable impactful internal collaboration across sustainability, strategy, finance and operations. We won't see change at the scale we need until we bring sustainability into the way we make budgets, develop forecasts and measure performance.

Even with the challenge of the prevailing incentive misalignment across capital markets and policy, business can drive transformative solutions through collective action and innovation, addressing the growing demand for performance and accountability on climate, nature and equity action. We are grateful to the WBCSD member companies who are rising to this challenge, especially those who provided their expertise and insights for this report. As we consider the stark reality of our environmental and societal challenges, we urge business leaders from our membership and beyond to seek out the compelling business case for sustainable business growth. We very much hope this report will serve as a valuable resource as they do.

Fiona Watson
Senior Director, Corporate Performance & Accountability,
WBCSD

by KPMG

Sustainability is now a mainstream corporate consideration. It receives increasing levels of investment, influences stakeholder relationships, and is a regular topic of boardroom discussions. Despite this prominence, many companies struggle to build a business case for sustainability initiatives, meaning it all too often sits as an isolated topic outside of everyday decision making or is viewed as solely a compliance consideration.

I often talk about CSOs needing to be multi-lingual, able to speak the functional language of their CEO, CFO, CTO and other C-suite leaders. Communicating the challenges and opportunities of sustainability into the areas of the business most impacted. Whether that be linking GHG reductions to EBITDA improvements, or renewable energy to meet the growing energy needs for data centres to run AI driven technologies, engaging through business function-specific communications will be critical to securing buy-in and building the business case for sustainability. The future is clear, every single Board, C-Suite and senior leader WILL have some component of sustainability embedded into their roles. We must therefore, bridge the language gap between sustainability practitioners and business leaders, and enable a common understanding of the sustainability related opportunities.

This guide does just that, providing an in-depth introduction to climate, nature, and social issues, and the practical steps for constructing the business case for each. It will help you to fully embed sustainability across your business, in every function and at every level. Doing so will be an essential part of protecting value & driving growth in the decades to come. Failure to grasp sustainability this decade, may mean your business is no longer competitive in the decades to come.

John McCalla-Leacy
Head of Global ESG
KPMG International

A sustainable transformation is essential and inevitable

Recent research indicates that we have breached six of our nine planetary boundaries[1] and that rising wealth inequality adversely impacts 70% of the global population.[2] It is increasingly becoming evident that current business practices are contributing to unsustainable levels of risk in the economy and for society. Businesses must use their resources and provide solutions to limit the climate crisis, restore nature and address inequality.

Embedding sustainability within corporate decision-making is now central to preserving and creating value, and sustainability imperatives are starting to impact company valuations.[3] This integration will drive more effective capital allocation through an understanding of downside risk and upside opportunity which more accurately reflect the physical and socioeconomic realities associated with a sustainable transition.

Building the business case for action

No board or management team can afford to ignore the significant pace and severity of physical impacts, and accelerating social, market and policy transitional impacts. Sustainability is an imperative that requires business leaders to raise ambition, sharpen accountability, and deliver action at speed and scale.

Inaction brings increased financial exposure and future losses, taxation and fines. At the same time, those who build the business case for sustainability capture growth opportunities, productivity and efficiency gains, and develop more resilient business models and supply chains.

This guide helps businesses to build that case

While businesses are beginning to move toward practices and policies to reduce their impact on climate, nature, and society, companies often struggle to calculate the financial impact of sustainability initiatives, and can therefore find it difficult to create a robust business case for action. **Our practical guide helps to address this challenge by providing both a “top-down” strategic lens for leadership to open discussion on sustainability, and a more detailed “bottom-up” view of the potential financial and intangible underpinning of different sustainability initiatives.** This provides a framework to support organizations through the journey of creating a decision-useful business case for sustainability.

Where to start?

We recognize that businesses could be struggling with different questions. This guide helps to answer the following.

I need to embed sustainability into my business strategy – what will this look like?

We introduce the sustainability transformation in business from pages 6-10

I have a sustainability ambition – what are my options for getting there?

We define a suite of potential sustainability opportunities and initiatives from pages 11-17

I have identified a set of sustainability priorities – how will each drive my firm's financial performance over time?

We show how these initiatives impact the financial statements from pages 18-31 and refer to the [Impact Tables catalogue document]

Introduction:
I need to embed sustainability into my business strategy – what will this look like?

01.

Introduction: I need to embed sustainability into my business strategy – what will this look like?

What do we mean by sustainability and value?

We considered the way that sustainability is defined by global governments, private companies, and civil society. For the purposes of this guide, we apply this broad, thematic definition of sustainability:

Any initiative which impacts or depends on three core sustainability themes, or topics:

→ Climate change mitigation and adaptation

→ Nature and biodiversity conservation and restoration

→ Equity and social justice for internal and external stakeholders

A note on 'value'

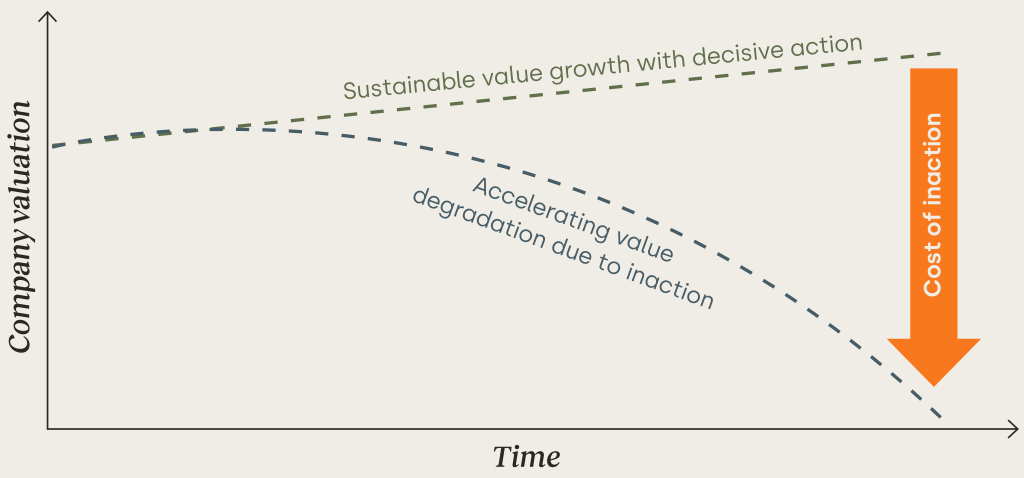
In the context of sustainability, the term 'value' can be used to describe anything that a society might deem important, from ecosystem health to mental wellbeing. For the purposes of this guide, to avoid confusion, we use the term purely to denote the financial value preserved or generated by a business, by undertaking sustainability initiatives. At the same time, we recognize that a business' financial success may be directly or indirectly underpinned by environmental, social and economic value.

The need for sustainability in business

Climate change, socio-economic inequality, and nature loss are disrupting the way we live and business operates. In a globalized economy, risks arising from extreme heat, water shortages, food insecurity, zoonotic disease, policy and legal change, economic instability, and geo-political tension, to name a few, have become increasingly disruptive.

Inaction brings significant cost and could adversely impact company value, while those that integrate sustainability factors into their business model will increase resilience and position to effectively capitalize on emerging opportunities (see Figure 1). Businesses must manage stakeholder and shareholder relationships across varied sectoral and regional transitions, while delivering meaningful action at appropriate speed and scale. Both action and inaction offer challenges and threats, including changing asset value, employee and community engagement, supply chain shifts, investment returns, and the misalignment of supply and demand, impacting operations, reputation and financials.

Figure 1: The cost of inaction (illustrative)



*Valuation profiles presented above are purely illustrative

Businesses need to put sustainability at the heart of their business planning and decision-making to mitigate risks, drive corporate resilience, capture emerging opportunities, and tackle threats. To do this, sustainability must be integrated into the business and operating model design, product and service development, governance and decision-making structures, and investment appraisal. High-quality and decision-useful data surrounding this enables financial markets to appropriately price corporate performance and business resilience.

In this vein, WBCSD's Climate-related Corporate Performance and Accountability System (CPAS) CEO Guide[4] offers an approach to aligning investor valuation and capital allocation decision-making with corporate decarbonization, addressing the growing demand for performance and accountability on climate action. In parallel, the Business Commission to Tackle Inequality released their flagship report[5] in 2023 outlining the adverse impacts socioeconomic inequality can have on businesses.

Short-term financial pressures continue to be a barrier to sustainable business models. Investments in sustainability are often evaluated against other initiatives which may generate shorter-term returns or address more immediate, or better understood, risks. By integrating sustainability into decision-making more effectively, businesses can drive accountability and influence financial markets to recognize the value of capital allocations toward sustainability.

Sustainability is not, however, a trade-off with financial responsibility. Practitioners must showcase the immediate value of embedding sustainability into decision-making, as well as the benefits over the medium- and long-term, in particular the impacts on value-at-risk. Communicating this effectively will help them to achieve the necessary buy-in from key stakeholders to channel more capital into sustainable business transformation.

Preparing a business case for sustainability

Boards must lead

Boards have a duty to comprehensively assess, identify and manage sustainability risk and opportunity in the same way as any other strategic risk or opportunity, and can be held legally accountable if they fail to do so. This both fulfils their responsibilities as stewards of corporate value, and helps to ensure that wider stakeholders are not negatively impacted. In effectively identifying their exposure to sustainability risks and opportunities, companies can better determine the costs of inaction as well as the costs and benefits of undertaking sustainability initiatives.

In many countries this imperative is enshrined in law. The UK's Section 172 statement of the Companies Act 2006, for example, requires boards to show how they have considered the consequences of any decisions for 'other key stakeholders', including employees, communities and the environment.[6] Additionally, environmental, social and governance (ESG) concerns and sustainability reporting standards - such as those issued by the Transition Plan Taskforce (TPT), the European Financial Reporting Advisory Group (EFRAG), and the International Sustainability Standards Board (ISSB) - are all being increasingly adopted by regulators; all require sustainability to be fully embedded in business planning, which starts with board leadership.

Key business case considerations

The first step for any company is to undertake a review of potential sustainability-related risks and opportunities. This should, in theory, be standard practice, but many companies struggle to sufficiently capture sustainability-related issues in their risk management frameworks.

Having done this, a company should create a climate, nature and social transition plan. This will provide vital strategic direction and alignment, including risk mitigations and opportunity optimizations, plus the context for any proposed sustainability initiative.

When creating this transition plan, or when preparing a business case for a specific initiative, it is important that issues are not considered in isolation. Trade-offs inevitably exist, and can be exacerbated by poor planning. For example, some afforestation projects have been shown to reduce forest biodiversity,[7] which can have knock-on impacts for local human communities.

Building the business case for action, accounting for the cost of inaction

When building a business case for any sustainability initiative, businesses must consider the cost of inaction. The diffuse character of climate, nature, and social (equity) issues, in particular, makes it difficult to accurately attribute specific impacts to specific actions, exacerbating executive dysfunction and prompting an action crisis visible across businesses and governments.

It is imperative that we break through these collective barriers. This starts with leaders factoring the cost of inaction into decision-making, even if they cannot do so in a precise, project-level manner. There are increasing reporting requirements around a company's ESG impacts, and the impacts of sustainability factors on a company. This concept has been framed as double materiality, whereby companies are encouraged (for example) to disclose the impacts of climate change on their operations and the impact of their operations on climate change, highlighting the interconnectivity of the two.

The direction of travel is for companies to undertake sustainability initiatives and report their performance, driving a regulatory case for action. This guide looks to support companies in deciding what sustainability initiatives are suitable to them and unpack the financial value of these undertakings to improve decision-making and drive action.

In a truly sustainable future, sustainability is not treated as an item worthy of a separate business case, but rather as part of business-as-usual operations. This means sustainability considerations would cut across all strategic decision-making processes. Ideally, businesses will cease to consider "sustainability" as a separate business item altogether. But, to achieve this level of integration, we must first begin "moving the dial" towards sustainability by building an initial business case, as detailed in this guide.

Navigating this practical guide

We have developed this practical guide in order to provide companies with a structured approach to developing the business case for a given sustainability objective. It is not a comprehensive implementation plan. Rather, we intend for this document to outline a framework, aimed at the organization-level, against which companies can begin to explore and refresh sustainability initiatives and the business cases behind them.

The guide is outlined as follows:

Section 1: Introduction
This section introduces sustainability and how it is a business imperative for boards and investors. It also includes a guide to the terminology referenced throughout the report.

Section 2: Opportunities
This section communicates tools to help companies build the case for long-term value creation through sustainability initiatives, with a view to safeguard short-term value creation where possible. We have identified 16 sustainability opportunities, which cut across sustainability topics like climate, nature, and society. Within each topic, we identify a range of sustainability opportunities, which are actions a company can take to leverage opportunities in each topic. Opportunities are based on existing standards and frameworks*. Sustainability opportunities are groups of relevant initiatives, grouped so initiatives under a particular opportunity have a consistent outcome and impact on the Financial and Intangible drivers of the business case.

Section 3: Drivers

This section communicates ways that companies can determine how prospective sustainability initiatives impact the key Financial and Intangible drivers of their business case. This section is built around a set of 'Impact tables' – one for each opportunity. These indicate what the financial and intangible impacts of a given opportunity may be, providing a starting point for creating a business case for any potential sustainability initiative.

Section 4: Impact Tables (See Impact Table catalogue document)

This section includes the impact tables, which were validated through consultation with sustainability topic experts, and are the core output of this guide designed to help companies think through the impacts that different sustainability opportunities could have on Financial and Intangible drivers.

Further Appendices (Appendix I, II, III)

Appendices also include additional information on various drivers outlined in this guide, impact pathways, the principals defining this guide's creation, methodological details, and references.

Companies should use this guide to identify the financial/intangible impacts that could be relevant for a sustainability initiative, and identify appropriate sustainability initiatives that can help them achieve their financial goals. **The intended audience of this guide is individuals who have a sustainability focus within organizations, whether that is the Chief Sustainability Officer or Chief Financial Officer**, who may focus on the big picture on how to drive their sustainability agenda within the business, or managerial staff, who may dive more deeply into the impact tables in separate Impact table catalogue document on the report's landing page.

*e.g. the Task Force on Climate-related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosures (TNFD), Corporate Sustainability Reporting Directive (CSRD), International Sustainability Standards Board (ISSB)

Guide Terminology

This guide applies four distinct terms to describe different aspects of understanding and developing the business case for sustainability:

Topic: Overarching categories of sustainability. For this guide we discuss three topics: climate, nature, and social.

Themes: Groups of related opportunities that align with corporate ambitions under the nature, climate, or social topics.

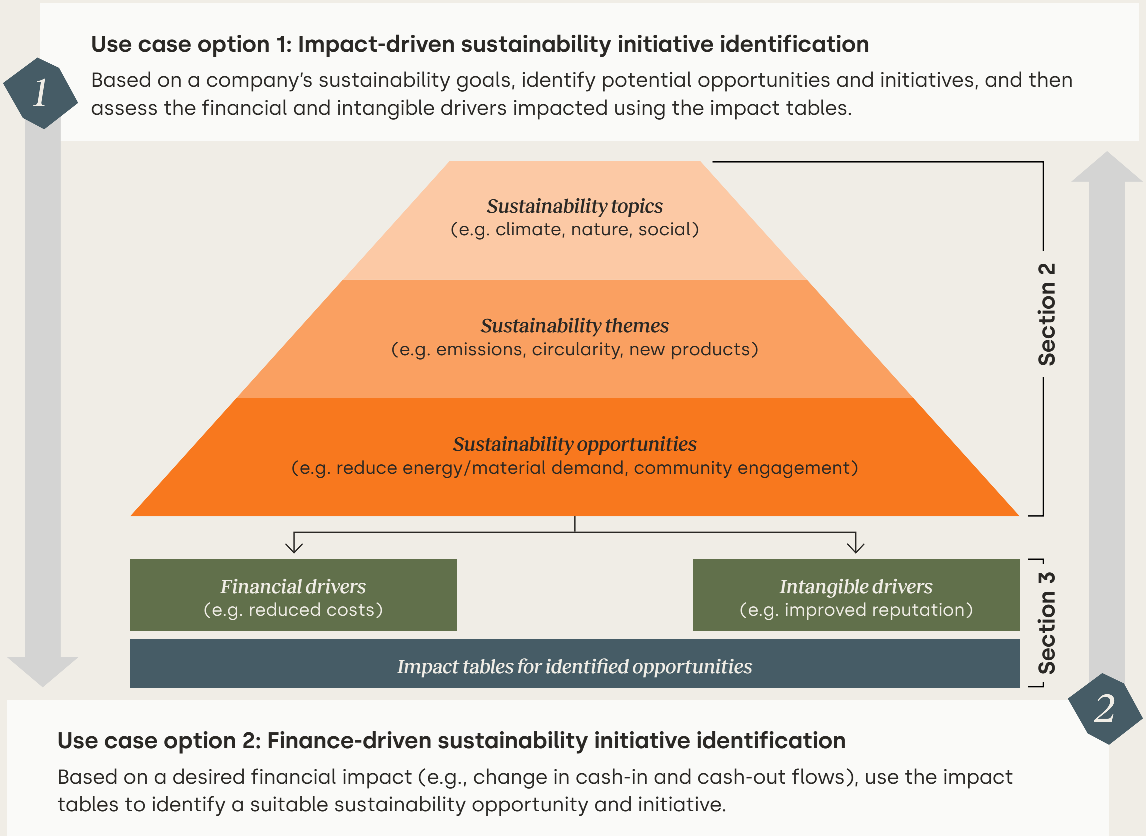
Opportunities: The intended directional movements that a business is taking to underpin its sustainability ambitions.

Initiatives[a]: The specific actions that a business can take to improve sustainability across the organization.

Note: (a) All initiatives that are grouped under one opportunity will have the same impact on Financial and Intangible drivers.

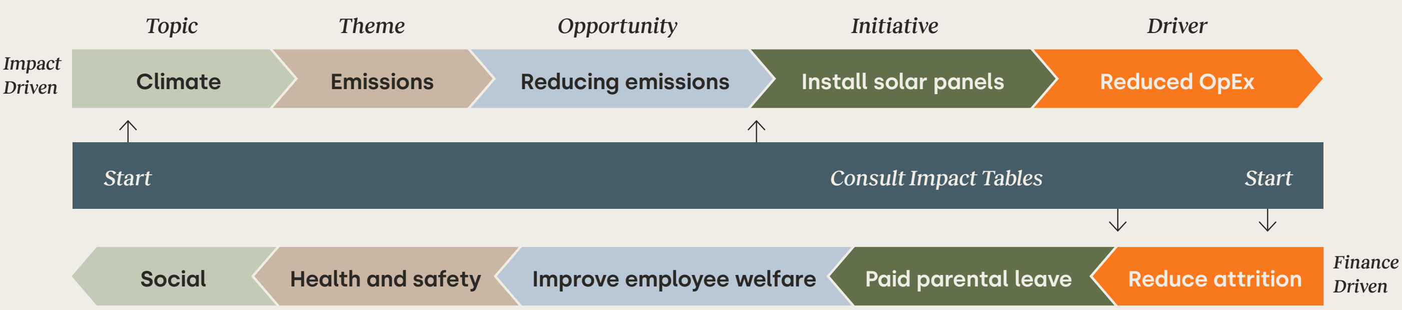
The diagram below outlines two theoretical "use cases" for approaching building a business case for sustainability. These can be either impact-driven (top down) or finance-driven (bottom-up).

Figure 2: Options to identify a sustainability initiative



The below pathways outline the stepwise processes of applying each of the two use cases above.

Figure 3: Impact-driven and finance-driven approaches of identifying sustainability initiatives



Opportunities:
I have a sustainability ambition – what are my options for getting there?

02.

Opportunities: I have a sustainability ambition – what are my options for getting there?

Sustainability themes

We have identified 16 sustainability themes across climate, nature and social topics. The below sustainability topics overlap significantly; leveraging opportunities within one topic will likely result in crossover benefits across other topics. For discussion purposes, each of the 16 sustainability themes below have been separated and listed under only one sustainability topic.

For the purposes of this guide, we consider governance-related initiatives as facilitators, rather than as a distinct area (as would be done within an ESG approach). We also recognize that the broader context in which a company operates can effect the successful implementation of a sustainability initiative. To this end, we provide additional actions (on page 16) that companies can undertake to change this context. We term these 'systemic catalysts'.

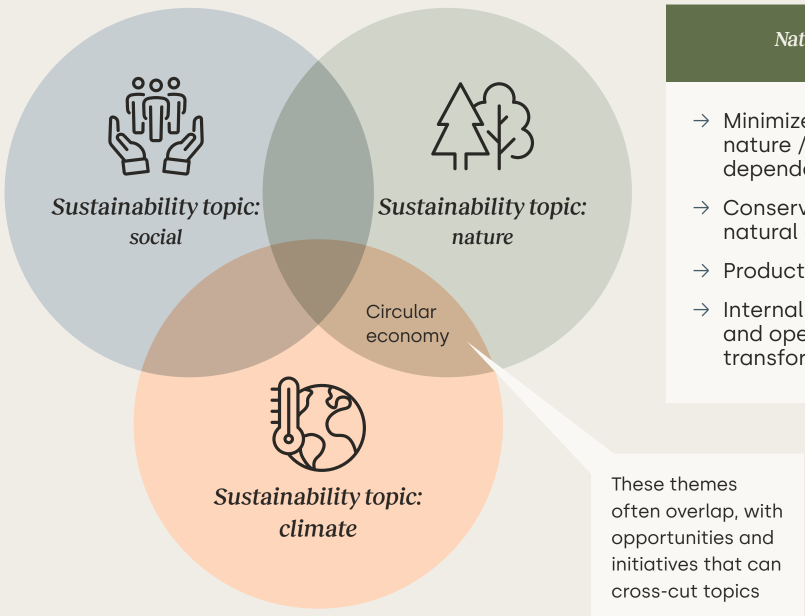
Figure 4: **Categories of Sustainable Opportunities**

Social themes

- → Health and safety
- → Labor rights
- → Prepare people for the future of work
- → Consumer protection
- → Products and services
- → Community development

Climate themes

- → Emissions and waste reduction
- → Emissions removal
- → Climate change adaptation
- → Products and services
- → Internal policies
- → Natural Climate Solutions



Nature themes

- → Minimize impacts on nature / manage nature dependencies
- → Conserve and restore natural capital
- → Products and services
- → Internal policies and operational transformation

Some initiatives can bear unintended, but commensurate, impacts in other sustainability topics. For example, divestment in a factory can reduce emissions (climate co-benefit) and improve water quality (nature co-benefit) but have adverse impacts on economic development in a region (social trade-off).

*The guide outlines Natural Climate Solutions, which includes offsetting, as an opportunity, however, it should only be used for 'hard-to-abate' or 'residual' emissions following active efforts to reduce total emissions.

Climate themes and opportunities

Companies are increasingly providing greater transparency on the impact they have on the climate, as well as the risks they face from climate change. Expanding beyond regulatory requirements brings with it significant opportunities to pioneer and apply new technologies, develop new markets, and contribute to the wellbeing of communities. The following six themes overlay opportunities that can help companies further accelerate climate action.

Note: the initiatives listed beneath each opportunity are a set of indicative examples, rather than an exhaustive list.

Table 1: Climate themes and opportunities

Theme
Opportunity
Example initiatives

Emissions and waste reduction	Products and services	Climate change adaptation
1. Change energy source • Low-emission fuels • Renewable energy • Low-emission transport	**4. Development of low- emission goods/ services (inc. circular economy*)** • Low-carbon product/service solutions • Products made from less carbon-intensive processes • Products manufactured with recycled or reused waste/by-products	**7. Company-wide climate resilience** • Operations and supply chain diversification • Business continuity plan updates • New technology, products & services
2. Improve energy / resource efficiency • Process optimization • Infrastructure retrofit • Improved energy efficiency of buildings • Sustainable packaging • Raw material use	**5. Sustainability-based financial products** • Financing mechanisms offering preferential access to capital for green activities e.g. Sustainability linked bonds, low-carbon ETFs	**8. Site-specific Physical risk management** • Site adaptation • Physical infrastructure improvements • Technology to minimize impact • Insurance policies
3. Scope 3 emission reduction • Supplier emissions standards • Stakeholder engagement	**6. Scale Down Activity** • Site closure and consolidation • Specialization or service/product consolidation	
Carbon capture and storage (CCS)	**Internal policies**	**Natural climate solutions****
9. Residual emission reduction • Direct carbon capture, use and storage (CCUS) • Direct Air Capture (DAC) • Bioenergy with carbon capture and storage (BECCS)	**10. Company-wide climate policies** • Use of internal carbon pricing (shadow or levy) • Deployment of employee climate training • Linking climate goals to remuneration packages	**11. Support/Investment in natural climate solutions** • Voluntary carbon credit markets • Carbon offsetting • Direct financial and strategic support for offsetting initiatives

* Circular economy is highlighted under nature in this report.

**The guide includes Natural Climate Solutions (including offsetting) as a sustainability theme, however, this should only be used for 'hard-to-abate' or 'residual' emissions following active efforts to reduce total emissions.

→ *See pages 22-23 for an illustrative example*

Nature themes and opportunities

Companies can take an active role in minimizing the impact they have on nature, as well as positively contributing to its restoration and regeneration. Nature-related opportunities may be more challenging to define, implement or less known in the broader business ecosystem than other sustainability initiatives under the climate or social topics. The following four opportunities and associated initiatives can support business nature action.

Note: the initiatives listed beneath each opportunity are a set of indicative examples, rather than an exhaustive list.

Table 2: Nature themes and opportunities

Theme *Opportunity* Example initiatives	**Minimize impacts on nature**	**Conserve and restore natural capital / manage dependencies**
	1. Reduce pollution • Solid waste treatment • Reduction of chemical contamination • Wastewater management	**4. Dependency-focus for business resilience*** • Watershed conservation • Natural pollinator protection • Sustainable Urban Drainage Systems (SUDS) • Conserving natural waste treatment
	2. Implement circular economy practices • Reduction of raw materials use through remanufacturing, refurbishment, and repair • Improvement of reuse and recycling practices	**5. *Impact-focus for ecosystem resilience** • Regenerative agriculture • Ecosystem e.g. rainforest restoration • Implementation of green roofing • Biodiversity net gain (BNG) for infrastructure • Investment in local green spaces and reserves
	3. Sustainable resource management • Sustainable timber • Fisheries management • Land use management • Extractive activities impact management • Water conservation	
	Products and services	**Internal policies / operational transformation**
	6. Nature-conscious goods and services • Plant-based alternatives • Cross-laminated timber for construction • Sustainable eco-tourism	**8. Company-wide nature policies** • Development of a policy that recognizes impacts and dependencies, with strategic integration of mitigation levers • Nature strategy • Linking nature goals to remuneration packages
	7. Nature-conscious financial products • Creating asset classes for nature • Constructing nature-related equity benchmarks	

*It is worth highlighting the distinction between opportunities number four and five, for it is difficult to disentangle impacts and dependencies. For the purpose of this guide, we have chosen to group initiatives under each based on whether the company's primary motivation would be to protect the natural capital on which it is dependent or to minimize its impact on nature. In other words, where a distinction can be made, is the initiative "business-first" or "nature-first"? This somewhat arbitrary differentiation is used to separate initiatives by their impact on drivers of a business case.

→ *See pages 22-23 for an illustrative example*

Social themes and opportunities

Companies have an impact on both internal stakeholders (e.g., staff and labor) and external stakeholders (e.g., consumers, communities). Focusing on social sustainability requires a company to address the needs of both internal as well as external stakeholders by addressing issues like human rights, work terms and conditions and access to essential products and services, etc.[8] The following six social themes and associated initiatives can help companies to advance equity action.

Note: the initiatives listed beneath each opportunity are a set of indicative examples, rather than an exhaustive list.

Table 3: Social themes and opportunities

Theme	**Health and safety**	**Labor rights**	**Prepare people for the future of work**
Opportunity Example initiatives	**1. Minimize risks and injuries** • Policies to reduce risk and address injuries • Infection and disease prevention measures	**3. Combat labor exploitation** • Abolition of child labor and modern slavery • Pay and promote living wages and incomes • Labor rights including for migrant workers • Support and respect worker representation	**6. Organizational culture and inclusion in the workplace** • Talent retention initiatives • Employee engagement activities • Recruitment policies
	2. Provide a safe and secure workplace • Initiatives to promote health, considering intersectionality • Ergonomic infrastructure • Flexible working hours, job-sharing • Mental and physical health support • Bespoke insurance cover • Parental support initiatives	**4. Equity in labor practices** • Diversity, equity and inclusion • Equal pay **5. Diverse, equitable, and inclusive value chain** • Setting standards with suppliers for modern slavery and child labor • Ethical and transparent tax adherence strategy	**7. Capacity building** • Learning and development • Training programs • Programs to support professional certifications and qualifications
	Consumer protection	**Products & services**	**Community development**
	8. Consumer-centric product design and manufacturing • Product quality testing and assurance • Ensuring consumer-related information is present **9. Ethical marketing and sales** • Preventing deceptive marketing • Maintaining customer privacy • Ethical AI and data	**10. Socially-conscious financial products** • Social impact bonds • Outcome contracts • Payment/banking solutions for unbanked **11. Access to essential products and services** • Innovation to expand affordability for products in underserved markets. • Public-private collaborations to drive market expansion	**12. Minimize adverse impacts** • Upholding rights of indigenous people and local communities • Employing local communities • Managing unintended impact on society, e.g., managing cost of living **13. Socio-economic responsibility** • Economic development and employment generation • Access to basic services related to health • Financial inclusion • Grants and charitable investments in economic development

→ ***See pages 22-23 for an illustrative example***

Prioritization of initiatives

When choosing between potential sustainability themes, opportunities, or initiatives, it is important for businesses to internally agree on the strategic or business purpose for pursuing the opportunity or initiative in the first place. This can then be used to develop metrics or guidance to prioritize and select an initiative. Some common rationales for pursuing sustainability initiatives include:

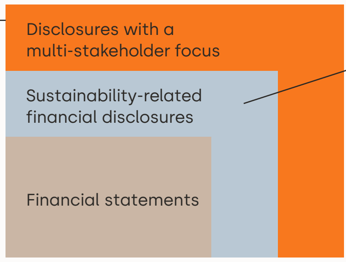
- **Financial gain or cost reduction**
- **Employee retention**
- **Impact reduction**
- **Regulatory compliance**
- **Business continuity and risk mitigation**

Regardless of the rationale behind pursuing a sustainability initiative, there are three core steps – among others that businesses can take to begin prioritizing and narrowing the wide landscape of available sustainability initiatives that could be implemented.

1

Conduct a materiality assessment
Materiality (or double materiality) assessments help companies understand the sustainability issues that are most impactful on their operations and stakeholders. These can be designed to meet the requirements of current or emerging regulatory frameworks (e.g. CSRD, ISSB)

Impact materiality
Impact materiality will require disclosure of sustainability-related matters that relate to a company's material actual or potential, positive or negative, impacts on people or the environment.



Financial materiality
Financial materiality will require disclosure of sustainability-related matters that trigger material financial effects on a company's development.

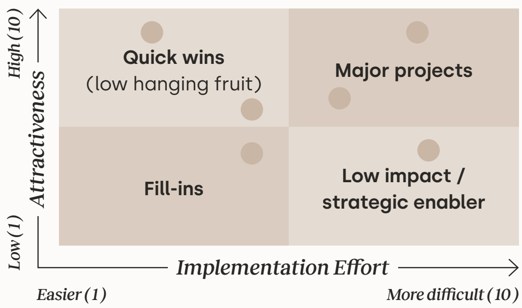
2

Conduct a current state or baseline assessment
Current state assessments seek to characterize the position of the company relative to relevant internal and external benchmarks. The type of assessment needed will change depending on the sustainability topic under which proposed opportunities/initiatives fall. For example:

Sustainability topic →	*Climate*	*Nature*	*Social*
Potential assessment →	Emissions accounting across Scopes 1 – 3	Biodiversity and nature risk heatmapping	Internal and external stakeholder satisfaction surveys

3

Prioritize initiatives by difficulty and attractiveness
This could be accomplished by scoring each potential initiative by its attractiveness (e.g. potential for revenue generation, strategic capacity, wider impact) as well as its implementation effort (e.g. quality of existing data, investment and time, risk). Once this is done, different initiatives can then be plotted on a chart, as seen to the right, to provide a view on which initiatives should be prioritized, dependent on the businesses needs.



Following these steps, businesses can begin to prioritize sustainability initiatives that deliver against strategic and financial interests. However, it is important that organizations consider not just the internal view of the sustainability initiative—and its relative viability—but also how the proposed initiative can interact within the context of the broader communities and economies that the business operates within.

Systemic catalysts

Systemic problems like climate change, nature loss and inequality exist within an interconnected tapestry of environmental, social, political and economic drivers and conditions.[9] Addressing these issues requires concerted effort, alignment and collective action across innovation and technology, finance and investment, policy and regulation, markets and customers. These enablers form part of the context against which businesses develop their business case for sustainability.

Here we highlight three critical catalysts that act as enablers for business case development:

1. Integration of climate, nature and social risks, opportunities and impacts in corporate finance, company and market valuation;
2. Creation of policy environment that can intelligently incentivize and accelerate transformation;
3. Enabling individuals to support positive change as consumers, citizens, workers and investors.

Though these enablers require a range of actions from government, investors and individuals, business can actively engage in market-making, influencing policy and demand, evolving business performance processes and culture, and advancing finance methods. Business can also provide decision-useful information to and develop engagement with financial institutions supporting integration in processes related to investment, lending and underwriting.

Integrating sustainability impacts, risks and opportunities in company and market valuation including in core methods, such as cash flow and multiples, cost of capital, capital structure and mergers and acquisitions (M&A). Considering for example:

→ the extension of forecast time horizons and the implications of transition risk and opportunity on growth rates, magnitude, direction, durability

→ weighing cash flow by estimated likelihood of scenarios considering revenues, costs, investment

→ transition effects on discount rate, carrying amount, useful life, residual value, decommissioning, impairment

→ how, when, what externalities can be internalized

Creation of policy environment for transformation by preventing unsustainable practices, setting standards and requirements, incentivizing innovation, and by guiding investment in public goods that business growth and sustainable development depend on. Considering for example:

→ integrated transition planning providing connectivity and feedback loops across business, finance and government

→ alignment of direct and indirect (tax and subsidy) market mechanisms in support of transition

→ scaling public-private blended finance

→ global reporting standards and taxonomies

Enabling individuals to support positive change aligning values and behaviors, providing sustainable choices, incentives and norms. Considering for example:

→ Multistakeholder approaches in governance models

→ Long-term incentive, remuneration and performance management expectations

→ Aspirations about sustainability and sustainable lifestyles

→ Meeting customer needs and wants in sustainable, affordable and accessible ways

Drivers:

I have identified a set of sustainability priorities – how will each drive my firm's financial performance?

03.

Drivers: I have identified a set of sustainability priorities – how will each drive my firm's financial performance?

Financial drivers of a business case

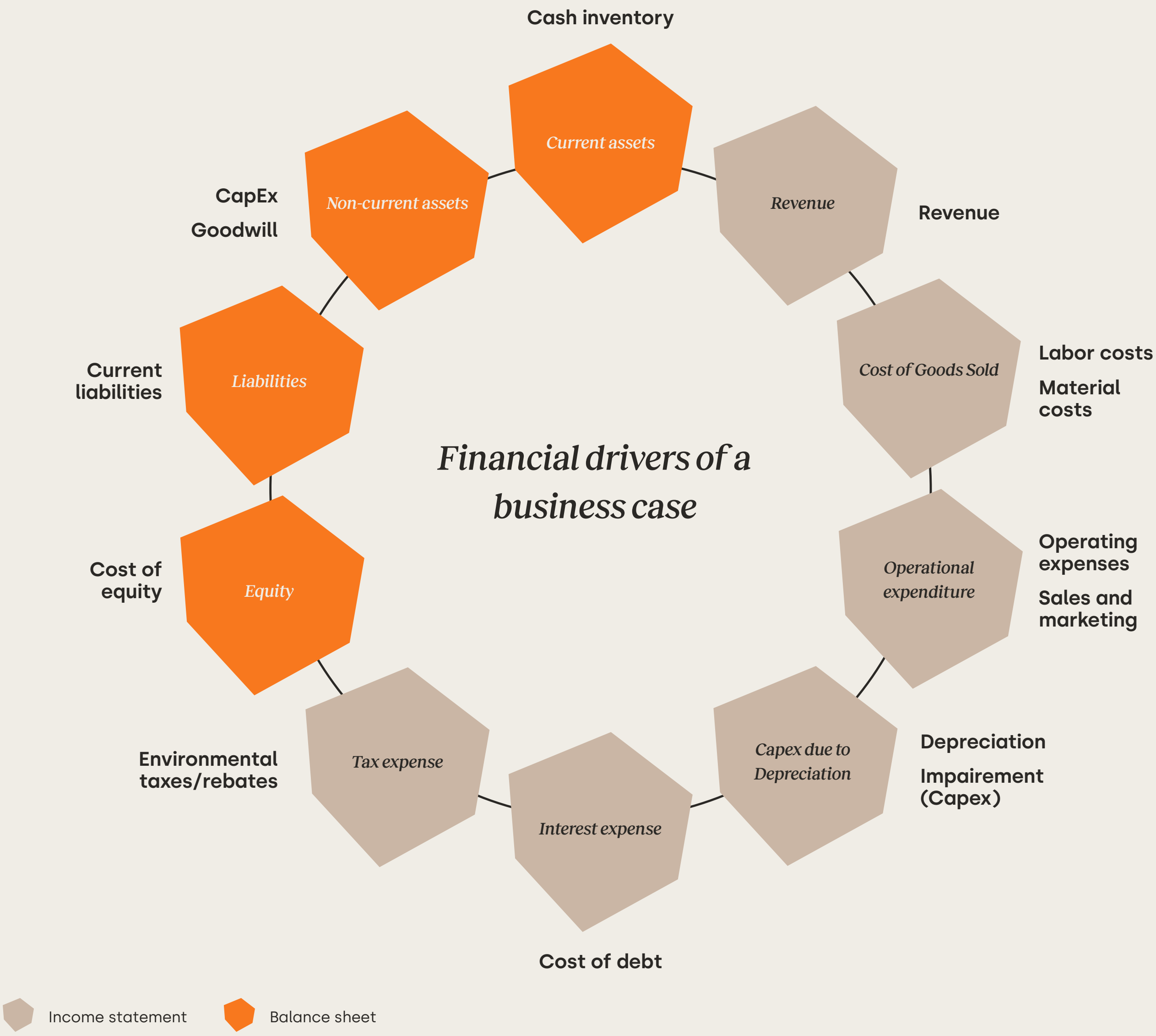
Embedding sustainability has been shown to have financial implications. Research has found, for example, that higher ESG performance can both directly and indirectly reduce[10] the cost of capital for companies, with the effect most pronounced[11] at the lower end of the ESG performance spectrum.

Many companies indicate they appreciate the long-term benefits of embedding sustainability, but struggle to make the business case for doing so. This may be because of C-suite tenures, typical investment cycles, or competition from non-sustainability-related initiatives which may be better understood and display clearer risk/return profiles.

At first, many investments in sustainability were driven by a desire to improve reputation in the market or by immediate financial concerns such as avoiding fines. As understanding increases, companies are beginning to identify both short- and long-term financial impacts of sustainability.

We have observed that sustainability initiatives can impact both profit and loss and balance sheet line items. We have identified 10 of these line items as financial drivers that need to be considered while preparing a business case for sustainability initiative. A detailed list of financial line items and costs are provided in Appendix I.

Figure 5: Financial drivers of a business case



Intangible drivers of a business case

In addition to clear and measurable financial benefits, companies undertaking sustainability initiatives can accrue intangible benefits like better customer loyalty, employee/supplier relations, and a heightened culture of innovation.[12]

Intangible drivers of a business case are any internal or external characteristics that directly or indirectly impacts a corporates' financial performance and valuation multiples but which are difficult to accurately quantify.

The intangible impact of embedding sustainability needs to be factored in while developing a business case. In this guide, we highlight six related intangible drivers:

Investor perception
Investors are increasingly prioritizing companies pursuing better sustainability performance[13], as these companies are well equipped to manage risks in the long term. Companies can accrue multiple benefits from improved investor perception including financial benefits of reduced cost of capital.

Customer sentiment
Companies with sustainable products gain a competitive edge and attract more customers, leading to revenue generation in the long-term. Over two-thirds of consumers[14] cite green or sustainable options as one of their considerations while making a purchase decision, and are increasingly willing to pay a green premium, other factors being equal.

Supplier relations
Embedding sustainability across the value chain leads to stronger supplier relations and value chain engagement. New York University found that 50% of survey respondents[15] thought sustainable supply chains lead to better risk management and 30% reported reduced costs[15] among other benefits.

Employee value
Sustainability has emerged as a key employee value proposition in recent years, with strategic benefits of attracting new talent, boosting health and productivity, and retaining talent. 55% of employees[16] (age 25-34) place a high level of importance on environmental and social issues, and 20% of job seekers[16] have turned-down employers due to sub-par ESG performance.

Brand and reputation
Improved sustainability performance can help in driving more brand equity for companies. On average, a company's perceived sustainability contributes to 3% of brand equity[17], amounting to USD 193Bn[18] in brand value for global top 100 brands.

Improved business management
By recognizing sustainability-related risks and opportunities and embedding these into strategic decision-making, businesses are better able to plan, allocate resources, and respond to emerging situations. Enabling them to reduce volatility[19] and improve performance.

Impact of embedding sustainability

Assessing the impact of embedding sustainability into business operations is a multi-step process. It requires a company to determine the immediate outcomes of discrete actions that are driving operational changes and impacting company financials, as shown below. Outlining the interdependences between operational changes, financial impacts, and macro-trends can act as a strategic roadmap and evidence base to achieve the desired financial outcome in the short and long term.

As part of the guide, we have developed three example impact pathways in the Appendix II. These showcase the factors that influence the successful implementation of sustainability initiatives to achieve desired financial outcomes in the short and long term. An overview of our impact pathways is shown below.

Sustainability opportunities & initiatives	Companies assess the sustainability opportunities within the 16 themes. To shortlist the opportunities and associated initiatives, companies use a variety of parameters including business needs, industry trends, and intention to create impact.
Short-term outputs	Once the sustainability opportunities and associated initiatives are selected, it becomes important to determine the direct impact they will have on company operations. Companies will need to make changes to their operational processes, manufacturing, infrastructure, staff, etc. In some instances, embedding sustainability will have implications across the supply chain including changing suppliers or engaging with customers.
Impact on Financial drivers	Professionals need to determine how operational changes like staff restructuring or process transformation will impact the company's financials, including asset value, operational expenditure and capital expenditure. In addition, at this stage it is also critical to consider the benefits accrued from avoiding costs like environmental taxes.
Macro-trends	The business landscape is evolving quickly, with changes to regulations, macroeconomic fluctuations, and changing stakeholder trends. Determining the impact of external macro-trends on company operations and long-term value is critical.
Long-term impact on company	Companies need to factor in the impact of embedding sustainability in long-term valuations. The short-term impact of financial drivers, overlayed with the macro-trends, can help companies assess changes in market positioning and valuation.

The primary focus of this guide is to support companies in assessing the financial impact of embedding sustainability opportunities and initiatives.

Impact tables

Using these pathways, we have produced a set of tables which are shown over the following pages and **form the core content of the guide.** Each table shows a climate, nature or social opportunity as outlined in Section 2. For each opportunity, we identify the impact it has on the Financial and Intangible drivers of a business case, from the list outlined on pages 14-16.

Companies can use these tables to guide the preparation of a business case for any sustainability-related initiative. For each opportunity, we aim to provide a sample of possible drivers that could be impacted and companies can use the guide to determine which are relevant for their specific initiative, as well as quantifying their magnitude.

Table 4: Example of impact table

1 For each opportunity, the impact tables provide an indicative impact, speed, and cost ranking. Actual values are subject to the specific conditions of a given business.

Potential impacts		
Impact: High	**Speed:** Medium	**Cost:** Medium

Sustainability theme	Description	Opportunity	Example climate initiatives
		…mand	→ Decarbonize production processes and technologies using low-carbon alternatives such as hydrogen → Purchase and use of renewable energy (e.g., virtual Power Purchase Agreements, green tariffs) → Onsite renewable generation and/or storage → Substitute fossil fuel use in transportation with lower or zero-carbon alternatives

2 For each opportunity, the impact tables provide a set of illustrative example initiatives as well as situating it within the context of the broader sustainability theme.

Impact of embedding sustainability on Financial and Intangible drivers	
Financial drivers impacted	**Intangible drivers impacted**
(+) **Increased revenue** from customers looking to minimize their own footprint (+) **Avoided cost** of legal costs of compliance and environmental taxes (e.g. on emissions) (+) **Reduced OpEx/CapEx** with capital availability/financial support from green incentives, and tax credits; due to use of lowest cost abatement (+) **Reduced cost of debt** due to stable operating cost profile (+) **Reduced cost of debt** due to reduced emissions (+) **Reduced cost of capital** due to improved investor perception (+) **Reduced OpEx** due to reduced exposure to fossil fuel price variability (+/-) **Change in OpEx** as a result of using green/cleaner fuels, mobility, and consolidation of operations (-) **Increased OpEx** of transaction costs of power purch… agreements and associated structu…	(+) **Improved financial planning** due to energy price stability (+) **Improved customer reputation** linked to clear decarbonization pathway (+) **Improved energy security** due to being sheltered from geopolitical issues (+) **Improved employee safety and security** due to some fuels being safer to handle than others

3 The tables outline some potential financial driver impacts associated with implementing a sustainability initiative.

4 They also highlight the potential impact on some intangible drivers of a business case.

5 Example initiatives and impacted drivers were determined through consultation with sustainability topic experts.

(+) Positive Impacts (-) Negative Impacts

Table 5: Example of impact table for climate

Potential impacts		
Impact: High	**Speed:** Medium	**Cost:** Medium

Sustainability theme	Description	Opportunity	Example climate initiatives
Emissions and waste reduction	*Reducing GHG emissions through efficient resources / processes and new technologies*	**Change energy source / demand**	→ Decarbonize production processes and technologies using low-carbon alternatives such as hydrogen → Purchase and use of renewable energy (e.g., virtual Power Purchase Agreements, green tariffs) → Onsite renewable generation and/or storage → Substitute fossil fuel use in transportation with lower or zero-carbon alternatives

Impact of embedding sustainability on Financial and Intangible drivers	
Financial drivers impacted	**Intangible drivers impacted**
(+) **Increased revenue** from customers looking to minimize their own footprint (+) **Avoided cost** of legal costs of compliance and environmental taxes (e.g. on emissions) (+) **Reduced OpEx/CapEx** with capital availability/financial support from green incentives, and tax credits; due to use of lowest cost abatement (+) **Reduced cost of debt** due to stable operating cost profile (+) **Reduced cost of debt** due to reduced emissions (+) **Reduced cost of capital** due to improved investor perception (+) **Reduced OpEx** due to reduced exposure to fossil fuel price variability (+/-) **Change in OpEx** as a result of using green/cleaner fuels, mobility, and consolidation of operations (-) **Increased OpEx** of transaction costs of power purchase agreements and associated structures and buyer considerations (-) **Increased CapEx** of building on-site renewable energy infrastructure (-) **Increased CapEx** to retrofit existing infrastructure for green energy	(+) **Improved financial planning** due to energy price stability (+) **Improved customer reputation** linked to clear decarbonization pathway (+) **Improved energy security** due to being sheltered from geopolitical issues (+) **Improved employee safety and security** due to some fuels being safer to handle than others

(+) Positive Impacts (-) Negative Impacts

Illustrative example – Hotel chain (1/2)

The example case study below (continued onto the following page) demonstrates a use of this guide to aid a hypothetical company in the hospitality sector as they decide on a sustainability initiative and begin to build their business case.

Scenario - A large hotel group with 1,000 properties has received criticism from corporate customers and shareholders for not doing enough to mitigate climate change or to prepare for its impacts. The company is therefore trying to build a list of climate-related improvements, changes, or updates they can make to their property portfolios in order to maintain its customer base.

This company is approaching their sustainability initiative from an impact-driven background, and they are following Use Case 1 of this guide, outlined on page 11 and below. They are starting with a sustainability-related goal and looking to identify potential initiatives that will create a strong business case for the move.

High-level flow of an impact-driven use case

Topic → Themes → Opportunity → Initiative → Driver

In the table below, they have outlined this flow (left) and their ideas for how to proceed (right) to help them make a decision on which initiative, or initiatives, they'd like to implement.

Table 6: Example of impact-driven sustainability initiative identification

PAGE 12	Topic	CLIMATE		
	Theme(s)	Emissions and waste reduction	Climate-change adaptation	
	Opportunity(ies)	1. Change energy source	7. Company-wide climate resilience	8. Site-specific physical risk management
	Initiative(s)	Renewable energy (onsite solar)	Operations and supply chain diversification	Physical infrastructure improvements
See Impact Table catalogue doc	Impact on drivers (non-exhaustive list)	(+) Increased revenue (consumer sentiment) (+) Improved customer reputation (+) Avoided cost (-) Increased CapEx (+) Decreased OpEx	(+) Reduced cost of capital (+) Avoided cost (+) Improved business resilience (-/+) Increased / decreased COGS*	(+) Reduced COGS* (-) Increased OpEx (-) Increased CapEx

For each of the shortlisted initiatives, the hotel group will need to develop a cost and benefit estimation profile, considering the impacts of both financial and intangible drivers. This consideration is often converted into financial figures for ease of comparison. This can make use of a variety of financial calculation methodologies, including **internal rate of return, net present value (NPV) calculations**, or **payback period.**

In this hypothetical example, we will investigate Initiative 1 – Onsite Solar from an NPV perspective. After conducting site assessments, the hypothetical hotels company has decided that 10 of their sites would make the ideal launching location for this rollout, so they're now investigating how to pull together the business case for this initiative.

Their process, including identified Intangible and Financial drivers and the hypothetical NPV calculations, **can be found on the following page**.

→ ***Continued from the previous page***
All financial values are fictional, and used for illustrative purposes only.

Illustrative example – Hotel chain (2/2)

Following initiative shortlisting, the hotel client wants to determine the potential financial impacts of this initiative, including Intangible drivers. To start, they identify and quantify financial and/or intangible considerations:

Table 7: Determining the financial and intangible impacts of an initiative

Initiative: Renewable energy – onsite (rooftop) solar electricity generation				
Assets	**Contractors**	**Suppliers**	**Contracts**	**Intangibles**
→ Electrical and structural/ building surveys	→ Construction project to action necessary building adjustments → Solar panel installation → Electrical infrastructure	→ Solar panel suppliers → Battery suppliers → Wiring and electrical suppliers	→ Ongoing cleaning and maintenance → Reduced energy costs	Relationships with: → Customers → Energy providers → Suppliers

For each project consideration the hotels company considers the following components, which together build the initiative:

Figure 6: Process of identifying cumulative impact for an initiative

Impact category

How will the initiative impact company financials, particularly as they relate to Revenue, CapEx, OpEx, Cost of Capital, and Avoided Costs.

Internal or External

Are the considerations related to changes required in your internal structures and policies, or do they require outside engagement or contractor support?

Timing and frequency

How frequently will the consideration arise – is it one time or ongoing?

At what point will adverse impacts taper and positive impacts manifest?

Costs / Benefits

What is the financial cost or opportunity of the consideration?

If non-financial, what financial metrics can be used to estimate impact so it is comparable to financial impacts?

Cumulative Impact

Over what time frame are returns expected, and in what domains?

What calculations (e.g. NPV) will be used to present the business case?

Table 8: Illustrative example of cumulative impact calculation

Revenue Changes		CapEx		OpEx		Cost of Capital		Avoided Costs	
Improved customer perception	+$$$ External Recurring	Solar panel purchase and battery purchase	-$$$ External One-off	Reduced Energy Costs	+$$$ Both Recurring	Green bonds	+$$$ External One-off	Reduced carbon tax liability	+$$$ External Recurring
Increased downtime due to construction	-$$$ Internal Recurring (during works period)	Construction costs	-$$$ External Recurring	Ongoing maintenance contract	-$$$ External Per year (ongoing)	Inclusion in sustainable/ transition funds	+$$$ External Recurring	Avoid energy price exposure	+$$$ External Recuring
		Transaction costs	-$$$ One-off and recurring Recurring						

After comparing this to the NPVs from the other shortlisted initiatives, the company has decided to proceed, and can now begin to build an action plan, further investment cases, and communications strategies to support this initiative.

The above example is illustrative and high-level; the reality, as with any corporate endeavor, would be more complex. This could include conducting site assessments to determine feasibility and select appropriate properties, hiring legal counsel, additional supplies not listed above, and purchasing insurance among other components. However, the process for using this guide to identify the financial and intangible drivers of a proposed initiative will remain the same as this is scaled-up.

Using the guide to develop a business case

Preparing a business case for sustainability requires a company to follow these five steps:

1) scope the initiative; 2) translate impact; 3) Identify KPIs and data requirements; 4) collect data and determine impacts; and 5) draft business case.

1

Scope initiative
Practitioners should conduct a baseline analysis of their current impact goals; knowing where the company is starting from is critical to developing a strong business case. This can be conducted using a RACI (matrix of those considered responsible, accountable, consulted, and informed) to identify key changemakers, and then consulting with them to develop goals that intersect with the broader corporate strategy while outlining specific and discrete initiatives required to meet them. This is also the time to ensure Board/management buy-in and sign-off has been approved, and determine which functional teams should be brought on-board to ensure feasibility.

2

Translate impact
Practitioners can then use the Impact tables in this practical guide to identify financial and intangible drivers. The guide will also help in assessing how the associated financial line items across the income statement and balance sheet will change, i.e., increase/decrease/no change.

3

Identify KPIs and data requirements
Each impact goal should have a KPI associated with it, which can be isolated and independently tracked. Understanding existing data sources, controls, and quality is critical at this stage, as these data will be instrumental in characterizing the financial and intangible drivers that will build the business case.

4

Collect data and determine impact(s)
Following the identification of KPIs and data needs, companies can then collect the relevant preliminary data required to quantitatively estimate the positive and negative financial and intangible impacts of sustainability initiatives. Practitioners should ensure that data sources are reliable and repeatable, and can base their calculations on real-time data and management information or they can use industry standard data sources to estimate financial and/or intangible impacts.

5

Draft business case
Once preliminary data have been collected, and possible impacts have been estimated, businesses can then determine their objectives for monetizing this impact (i.e. quantitatively underpinned risks and opportunities). This will be company-specific, but there will be similarities within each sector, and there are example frameworks—such as the New York University Return on Sustainable Investment (NYU ROSI)[20]—which can lend valuable insight. Finally the monetized impact of sustainability can feed into financial calculations of ROI, breakeven, limiting factors, and costing/budgeting to prepare a defensible business case.

Beyond the Business Case: Execution

The scale of change to execute against the business case for sustainability organization-wide is significant. It often requires changes across the entire value chain and to established operational processes. Most important, however, is the cultural transformation and mind-set shifts—incorporating sustainability into every decision made and every action taken.

Commonly, delivering the business case for sustainability, and the subsequent transformation, is seen to be the sole responsibility of the Sustainability Lead. While this role is critical to drive the transformation, the responsibility for delivering change actually sits across many different stakeholders. Assigning clear roles and responsibilities throughout the organization is key for success, though the Sustainability Lead must have sufficient seniority and power to influence decisions and activities organization wide.

Driving transformational change requires establishment of core KPIs, which must be well-articulated, communicated and understood across the business. This includes ensuring that the "tone from the top" is aligned with the end goals of the program, and is providing an active driver toward the successful embedding of sustainability into Business As Usual (BAU) operations.

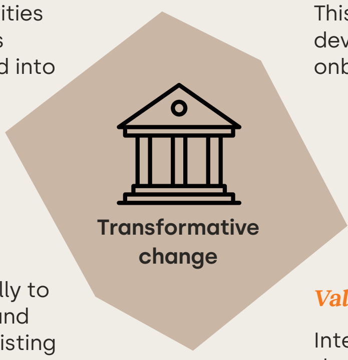
Some additional, systemic, considerations include:

Functional Process:

Core processes and decision-making criteria used within each function in a business will need to be re-visited to ensure alignment with strategy. For example, procurement will need to factor key sustainability criteria into supplier selection processes. HR will need to consider hiring and performance management activities – ensuring delivery of sustainability goals is embedded in staff scorecards and factored into remuneration.

Organizational Structure:

Transforming to become a sustainable business will likely necessitate skills and capabilities that are not available in the business. Identifying and addressing these gaps, and amending organisational structures to enable efficient and effective delivery, are key considerations. This will likely include elements of learning and development (for upskilling existing teams) and onboarding of new staff.



Engagement:

Sustainability programmes need to be communicated both internally and externally to stakeholders and the broader community and market. Integration of sustainability into existing communications teams would help ensure that all outgoing communications, internal or external, collectively further the brand and image of a sustainability-led organization.

Value Chain:

Integration of sustainability considerations throughout the value chain, not just within direct operations, is critical in delivering a sustainable business strategy. Building on the business case, it is important to assess each aspect of the value chain – conducting a lifecycle assessment – to identify how the business model can be amended or reimagined to deliver your sustainability ambition.

Data, Technology, and Reporting:

Monitoring progress against sustainability objectives requires non-financial data and technology platforms that are appropriate to hold and manage this. Internal IT is best placed to deliver these programmes to establish the right software and technology solutions to hold and analyse data for reporting and progress monitoring. The reporting function itself, however, is best placed within the Finance arm of the business, as financial teams are already equipped for other forms of reporting, and adapting this function to include sustainability reporting would require the least duplication of resources.

Beyond the Business Case: Impact accounting

Some companies have already started to take a more holistic view by applying environmental and wellbeing economics to understand value to society, quantifying the societal cost or economic value of external impacts. However, many technical, market, governance and practical challenges remain.

Impact accounting is a system for measuring and valuing the impacts of corporate entities and generating impact information to inform decisions related to an entity's effects on sustainability.[21] This involves assessments of capitals: the resources and relationships affected and transformed by business.

Financial Capital

Social Capital

Natural Capital

Human Capital

Initiatives like the Value Balancing Alliance, the Capitals Coalition and the International Foundation for Valuing Impacts (IFVI) are advancing the concepts, methods, and frameworks for impact accounting, measurement and valuation on a range of topics including those outlined below.

Living/adequate wages

Developing impact pathways relating to renumeration and living wage deficit, assessing outcomes and impacts affecting well-being.

Water benefit accounting

Developing consistent, comparable, and relevant societal value metrics connected to water stewardship projects.

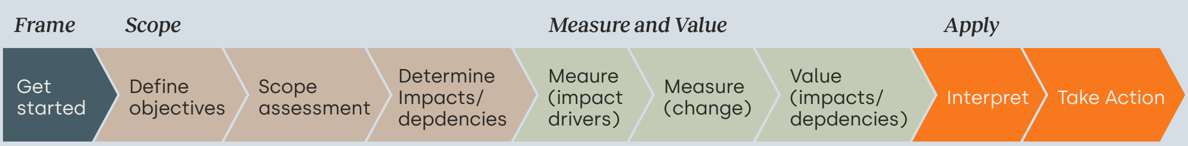
GHG/Carbon

Accounting for the social cost of carbon – the value of aggregate climate damages from one more ton of carbon.

Natural capital accounting

Methods to measure and value how business activities affect societies through changes in natural capital and ecosystem services.

The Capitals Coalition, WBCSD and the Value Balancing Alliance released in 2023 their Natural Capital Management Accounting (NCMA) methodology[22] to help streamline and clarify the accounting process for corporates seeking to measure and value nature-related impacts. This methodology focuses on the "Measure and Value" steps of the framework outlined by the Natural Capital Protocol[23], outlined below.



Impact drivers are measured in terms of physical quantities, and can be measured using primary data (internal), secondary data (publicly available), or both.

Key considerations while selecting data: scientific validity, quality control, temporal references, geographic specificity, technological representativeness, and practicality.

Change Measurement can be conducted in-house or through third-party sources, and focuses on identifying changes in intangible capitals (natural, social, etc) associated with your business operations.

Change can be measured using direct measurement, generalized modelling, detailed modelling, or, in some cases, bespoke modelling or estimation.

Valuation centers the effect of natural (or other) capital change on affected stakeholders. This is often converted into monetary valuations.

Potential valuation techniques include: market pricing, replacement value, damage cost avoidance, hedonic pricing, contingent valuation, or choice experimentation. Each comes with advantages and disadvantages.

Important progress has been made in the field of impact accounting, but significant challenges remain with methods, data, applications, scale, context, interpretation and integration to core corporate finance and capital market processes (e.g. assessing forecasted financials).

Additional WBCSD Resources

There are many resources to help learn more about the different themes presented in this document. Some WBCSD examples can be found below.

Table 9: Additional WBCSD resources by thematic area

Resources		
Theme	**Resource**	**Link**
Net Zero	Net Zero Guidebook	Net Zero Guidebook (EN) – The Climate Drive
Natural Climate Solutions	Natural Climate Solutions and the Voluntary Carbon Market: A Guide for C-suite Executives	Natural Climate Solutions and the Voluntary Carbon Market (wbcsd.org)
Carbon Removal	Removing Carbon responsibly	Removing carbon responsibly (WBCSD)
Adaptation & Resilience	The Business Leaders Guide to Climate Adaptation & Resilience	Climate Adaptation Guide (wbcsd.org)
Nature Positive	WBCSD's Roadmaps to Nature Positive	Roadmaps to Nature Positive (wbcsd.org)
Nature Based Solutions	NbS Blueprint and Map	NbS Blueprint and Nature-based Solutions Map (wbcsd.org)
Inequality	Tackling inequality: An agenda for business action	tacklinginequality.org

Appendices

Appendix I – Financial Drivers

Appendix II – Example impact pathways

Appendix III – Guiding principles

Appendix I – Financial Drivers

Financial Drivers

There are many resources to help learn more about the different themes presented in this document.
Some WBCSD examples can be found below.

Income Statement Financial Drivers		
Line items	**Financial Drivers**	**Underlying financial factors impacted by sustainability opportunities**
Revenue	Revenue	Products Sales
		Product Price
Costs of Goods and Services (COGS)	Procurement costs	Raw materials procurement cost
		Upstream Logistics cost
	Manufacturing costs	Labor cost
		Packaging cost
		Warehousing cost
Operational Expenditure	Operating expenses	Energy costs (e.g., electricity and fuel costs)
		Utilities (e.g., water costs)
		Property Rentals
		Equipment rentals
		IT costs
	Sales, distribution and Marketing	Downstream logistics cost
		Downstream warehousing cost
		Merchandising, branding, and PR costs
		Advertising costs
		Transaction charges
	General expenses	Salaries and payroll costs
		Employee benefits cost
		Office supplies, equipment and furniture
		Research and Development
		Legal and compliance costs
		Insurance expense
		Maintenance and repair
Depreciation expense	Depreciation	Manufacturing equipment replacement
		Transportation vehicle replacement
	Amortization	License expense
Interest expense	Cost of debt	Loan rates and charges from banks
		Loan rates and charges from private lenders (e.g., PE firms)
		Line of credit cost
Tax expense	Corporate tax	Income tax
		Property tax
		Excise duty and tariffs
		Capital gains tax
	Environment-related taxation	Carbon tax/price
		Emissions tax (energy levy)
		Landfill tax
Impairment	Impairment	Stranded asset cost
		Cost of physical damage

Balance Sheet Financial Drivers		
Line items	**Financial Drivers**	**Underlying financial factors impacted by sustainability opportunities**
Current Assets	Cash and short-term investments	Foreign exchange
		Current accounts
		Marketable securities
	Inventory	Raw material inventory
		Work in progress inventory
		Finished goods
Non-current assets	Capital expenditure	Property
		Plant and equipment
		Setting up new manufacturing/operating process
	Intangible Assets	Brand
		Vendor relations
		Goodwill
Liabilities	Current Liabilities	Debt payables
		Interests due to shareholders
		Accounts and notes payable
	Non-current liabilities	Tax payable
		Long-term financial liabilities
Equity	Cost of equity	Cost of raising equity funding
	Shareholders equity	Share price
		Return on equity
		Market capitalization

Appendix II – Example impact pathways

Example Impact Pathway: 'Energy input'

Short term

Energy input

Energy input initiatives

- Use of lower-emissions fuels
- Use of renewable energy
- Low-emission transport
- On-site renewable generation and storage

Short/ med-term outputs

- Reduced emissions from use clean fuels
- Better compliance to laws and lower fines/ taxes
- List identified and contracted new suppliers for renewable power
- Newly established or overhauled processes/ infrastructure
- Upskilled of hired talent to manage new processes

Impact on Financial drivers

- Increased revenue from greener products
- Avoided cost of environmental taxes
- Reduced cost of debt due to lower emissions and higher ESG ratings
- Changes in OpEx as a result of using green/ cleaner fuels and mobility
- Increased OpEx of transaction costs
- Increased CapEx of buying /building new infrastructure or retrofitting existing infrastructure

Focus of the practical guide

Macro impact

Regulatory Impact

Policies like coal phase out, and EU Green Deal will make BAU more expensive, while rising carbon prices, TCFD, ISSB, and other disclosure regulations will push companies to act

Economic impact

Renewable energy technologies are expected to reach commercial parity that will ensure cost of renewable energy is lower as well as more stable in the future

Stakeholder Impact

Investors and private lenders are providing capital at favorable terms for businesses with lower emissions

Long-term impact on company value

- Increased share price and valuation multiples
- Sustained profits with lower operating costs and increased revenues
- Increased business resilience as renewable energy through decentralized grids will allow companies to diversify energy inputs

Long term

Example Impact Pathway: 'Initiatives for ecosystem resilience'

Short term

Initiatives for ecosystems resilience

Impact focused initiatives for ecosystems resilience

Investment in ecosystem restoration	Implement green roofing on owned property	Implement Biodiversity Net Gain (BNG)	Invest in local green spaces nature reserves

Short/ med-term outputs

- Changes to existing building and infrastructure to develop green ecosystems
- Better employee health and productivity due to interaction with on-site ecosystems
- Contracted suppliers and applying for certifications/ grants/ funding
- Developed nature-related capabilities and skillsets
- Investments in marketing and branding around initiatives

Impact on Financial drivers

- Increased revenue from sales to nature conscious costumers
- Reduced cost of capital from access to sustainability linked financing e.g. SLBs
- Reduced OpEx/ CapEx with financial support e.g. government funding, green incentives, tax credits
- Reduced OpEx with improved employee health and productivity
- Increased CapEx from initiative investment
- Increased OpEx from increased R&D and advertising costs

Focus of the practical guide

Macro-impact

Regulatory Impact

Disclosure regimes like TNFD/ CSRD will incentivize action, particularly where double materiality is included
BNG and similar policies will make such initiatives compulsory

Economic impact

As initiatives like the NGFS further embed nature into financial decision-making, central banks and governments will ensure increasingly favorable policies for nature

Stakeholder Impact

Access to capital at favorable terms for N&B initiatives will ensure reduced costs of investments

Long-term impact on company value

- Improved share price due to positive investor perception and easy access to capital
- Resilience to sudden regulatory changes, new disclosure requirements, or shifting consumer sentiment

Long term

Example Impact Pathway: 'Combat labor exploitation' opportunity

Short term → Long term

Focus of the practical guide (covers the rows "Combat labor exploitation", "Short/ med-term outputs" and "Impact on Financial drivers")

Combat labor exploitation

Initiatives to combat labor exploitation

- Abolition of forced labor including child labor
- Pay and promote living wages and incomes
- Labor rights for all workers (e.g., contract and migrant staff)
- Right to organize for collective bargaining

↓

Short/ med-term outputs

- Recruited staff and labor at living wages
- Policies for improved rights for contract workers
- Policies to allow staff to join unions
- Ensured legal staff working hours and quality working conditions
- Established forums for staff to voice their concerns

↓

Impact on Financial drivers

- Reduced OpEx from improved productivity
- Better cost of capital
- Avoided costs from lower litigation cases
- Avoided costs of labor conflictts and business disruption and absence
- Changes in OpEx for implementing measures

↓

Macro- impact

Regulatory Impact

Enforcement of regulations like UK Modern Slavery Act and Consumer Rights Act will require companies to disclosure social measures

Economic impact

International organizations and governments provide support to companies for ensuring better labor practices

Stakeholder Impact

Costumer and investors are increasingly concerned about the human rights violations across supply chain

↓

Long-term impact on company value

- Improved company valuation and share price
- Better customer loyalty and reputation
- Increased business resilience

Appendix III – Guiding principles

Principles of this practical guide

We acknowledge that the world of sustainability is full of standards and frameworks, and our intent is not to add another. Instead, our guide gives companies practical steps to connect sustainability opportunities, initiatives and actions to financial drivers.

For this reason, we have built the guide around five principles:

1 ***Business-first***

Focused on realistic actions that can be taken using existing business processes

2 ***Value-focused***

Identifies sustainability initiatives that will help to drive corporate value

3 ***Actionable***

Easy to use with actionable guidance to translate impact of sustainability initiatives

4 ***Future-proofed***

Designed to retain utility over the sustainability journey of a company

5 ***Sector-agnostic***

Focused on being applicable as widely as possible

Endnotes

1 Stockholm Resilience Centre. (2023). **Planetary boundaries**.

2 UN News. (2020). **Rising inequality affecting more than two-thirds of the globe, but it's not inevitable: new UN report | UN News**

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Acknowledgements

Disclaimer

Acknowledgements

WBCSD would like to thank members of the Corporate Performance & Accountability Business Case for Sustainability action area for providing their insights and feedback.

This guide was developed in collaboration with KPMG, and we would like to thank members of the KPMG UK ESG Strategy team and other specialists within KPMG UK and globally for their support in delivering this project.

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