ECONOMIST IMPACT

Thriving sustainably:

How can New Zealand businesses deliver on their green credentials?

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Foreword

In navigating the complex terrain of New Zealand's corporate response to the deepening global climate crisis, this report delves into the critical interplay between environmental responsibility and business resilience.

New Zealand is finding itself at a pivotal juncture, where the imperative to strengthen and refine our environmental, social, and governance (ESG) response has never been more important. This research reveals a nuanced landscape, signalling the need for a more deliberate integration of these principles into business DNA.

Technology and data play a pivotal role in navigating the road to driving net-zero solutions, starting with measuring performance and transparent reporting. The opportunity to leverage data also extends beyond reporting, data can drive fundamental ESG transformation to improve business efficiency and performance.

Strengthening our ESG muscle calls for businesses to strategically allocate and empower resources to drive sustainability strategies now.

As we look ahead, the report underscores the need for businesses to establish ambitious yet achievable sustainability goals, invest in data strategies to streamline reporting, and broaden their perspective on the far-reaching impact of their ESG activities. There lies great opportunity to leverage data to drive ESG transformation, ultimately resulting in efficiencies and new revenue streams. I am optimistic that kiwi businesses will propel collectively toward a future where sustainability isn't just a goal but an inherent part of their transformation. Something of which New Zealand can be proud.

Simone Moors, CEO, New Zealand

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As the climate crisis deepens, New Zealand is facing troubling consequences. The national temperature has risen by 1.1°C since 1900, causing glaciers on the South Island to retreat; this has given rise to growing concern around rising sea levels and potential flooding.

The impacts of climate change are reflected in financial costs as well. In 2022 climate-related extreme weather general insurance claims topped NZ$351.2m (US$208.8m), more than ever before.[1] Primary industries are also hit hard. Water scarcity is inflating the capital costs associated with irrigation, potentially limiting its expansion and increasing the risk of crop losses during prolonged droughts.[2] As the climate crisis worsens, businesses will experience added financial burdens and strained resource accessibility.

The scientific consensus is unequivocal: human activities are the primary drivers of climate change. Despite New Zealand's relatively small size, the country contributes significantly to global greenhouse gas emissions.

On a per-head basis, New Zealand ranks among the top 30 emitters worldwide. The agricultural sector accounts for approximately half of greenhouse gas emissions, while energy use accounts for another significant share, at 40%.[3,4]

Strengthening environmental, social and governance (ESG) readiness in New Zealand has become a matter of acute urgency. The country has ambitious emissions reduction targets. It is aiming to bring down emissions by 50% by 2030 compared with 2005 and reach net zero by 2050.[5] Its Emissions Reduction Plan includes approaches for key emitting sectors such as energy and industry, and actions for empowering the Māori indigenous population to ensure an equitable transition.[6]

However, businesses in New Zealand have yet to effectively respond; only 20% confirm that they have sought information or advice in the past three months to reduce emissions, with some doubting their capacity to make a meaningful impact on global emissions, according to a November 2022 government survey.[7] There is a risk that these targets will go unfulfilled if stronger action is not taken.[8]

This article is based on a 2022 Economist impact survey of 140 business executives in New Zealand from various industries, who were asked about what it takes to be a future-ready modern business. The analysis forms part of *Thriving tomorrow: Building the future readiness of New Zealand businesses*, the country-focused segment of a global programme, the *Future-Ready Business Benchmark*, developed by Economist Impact and supported by Cognizant.

Much room for improvement despite a solid foundation

New Zealand companies recognise there is a need to act. Almost all (95%) surveyed firms are prioritising environmental sustainability and social responsibility, recognising their importance in transforming into a modern business. Moreover, 91% believe that addressing environmental concerns is essential for product development and service provision.

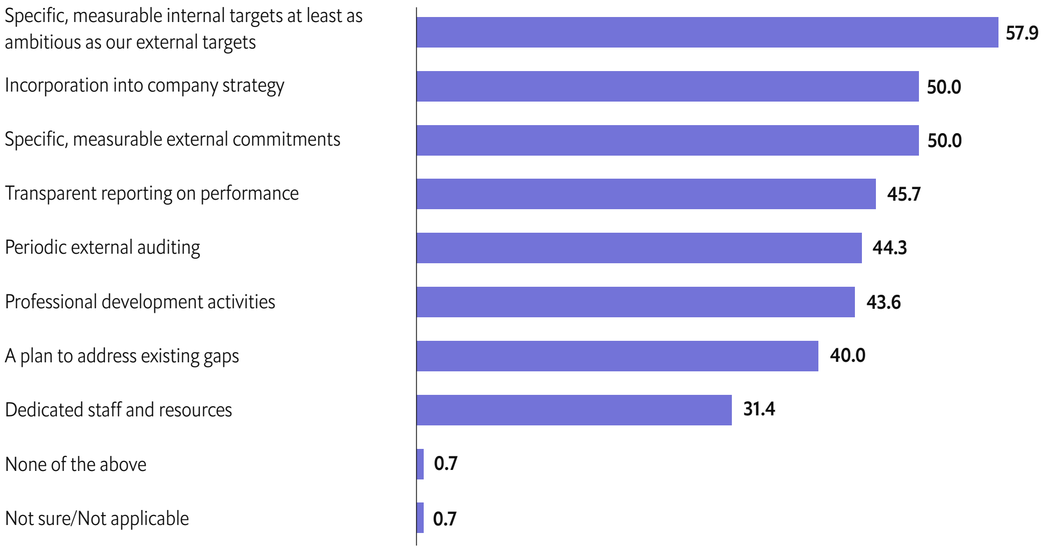
"New Zealanders care deeply about our environment, and for good reason" says Kiri Hannifin, chief sustainability officer at Air New Zealand. "We are blessed for the land we live on and have the role as guardians for future generations."

Some businesses are translating their sustainability commitments into practical action, but many firms are yet to take strategic and deliberate action on ESG. Only 40% of companies have comprehensive plans to address gaps in making their operations more environmentally sustainable. Half the surveyed firms have not incorporated sustainability into company strategy and less than 60% have developed internal targets that are at least as ambitious as their external ones.

This indicates that many firms have not yet embedded environmental sustainability into their DNA.

Figure 1: Only half of New Zealand firms have incorporated sustainability into company strategy

In which of the following ways does your company promote environmental sustainability? Select all that apply (%)



Source: Economist Impact survey

The perceived inaction could be due to the lack of maturity in the ESG efforts of many small and medium sized businesses (SMEs). "There are many challenges businesses face in realising their ambitions to become more sustainable," says Ms Hannifin. "Whether or not your business is required to do climate-related disclosures, though, there are things you can do. For example, being more thoughtful about things like waste," she adds.

Dave Rouse, CEO of CarbonClick, a carbon offsetting solutions provider, says that what looks like inaction may actually be companies making efforts on an informal basis, adding that New Zealand has a large share of very small businesses that may simply not have institutionalised sustainability strategies. "Some firms may be doing much of what they need to do in terms of looking after the environment, their communities and their people, but it's not formally written into a business strategy," he says.

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>
> Kiri Hannifin, chief sustainability officer, Air New Zealand

Transparency as a priority standard

New Zealand has introduced mandatory climate-related disclosures through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, affecting large financial institutions. They are now required to share climate-related information in accordance with established standards.[9]

As a result, businesses in New Zealand are stepping up to the plate of transparent and accurate reporting. Almost half of surveyed companies (46%) are looking into transparently reporting their performance to promote environmental sustainability, while 44% are implementing periodic external auditing.

However, there is a data gap, as less than 40% of companies are using data to monitor the impacts of corporate social responsibility (CSR) initiatives (35%), waste production (34%) and the carbon footprint across value chains (33%). New Zealand firms will have to do more to optimise the data landscape, not only for greater reporting efficiency but to also guide the development of strategic frameworks to support the sustainability agenda.

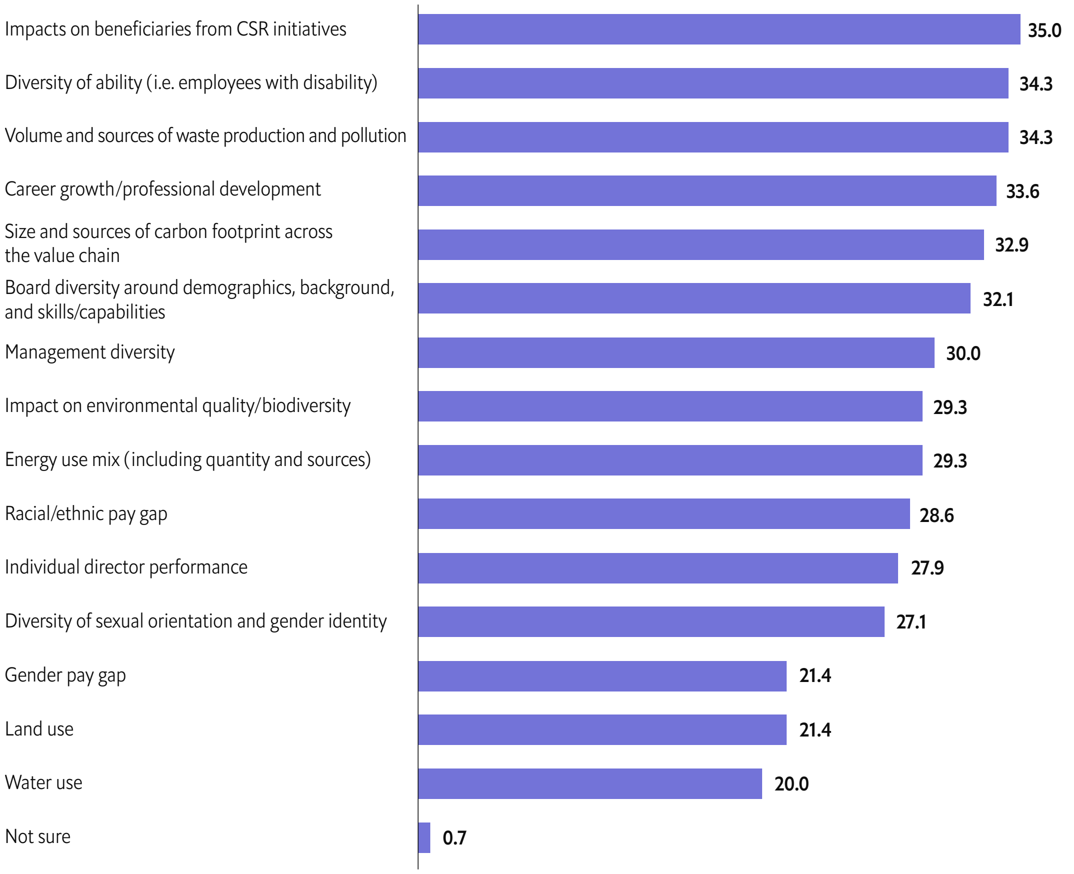
"Data is a fantastic tool for enabling business to create clear pathways forward," says Ms Hannifin. "In 2022, Air New Zealand set a 2030 interim science-based target, validated by the Science Based Targets initiative, to guide us on our journey to net zero emissions by 2050. We know how much and how quickly we need to reduce our greenhouse gas emissions, have a plan to get us there, and are incredibly focused on achieving that."

New Zealand enterprises can also look to companies in other markets that are tracking progress with data. Danone North America has joined hands with farmers to understand their data and explore transformation opportunities.[10]

For any company, reducing its carbon footprint and being transparent about it makes good business sense, as it appeals to a more sustainability-focused consumer base and demonstrates good corporate responsibility to investors while reducing energy costs.

Figure 2: New Zealand firms monitor their CSR initiatives, waste production and carbon footprints

Which of the following types of ESG data does your company monitor and evaluate? Select all that apply (%)



Source: Economist Impact survey

Cementing best practices

Many companies in New Zealand are forging ahead with ESG best practices that address different aspects of environmental sustainability.

Technology for innovative net-zero solutions

Technology is instrumental across the board, be it in the development of cleaner solutions or in the use of data. Air New Zealand, for example, is advocating for sustainable aviation fuel (SAF) as a potential solution for reducing emissions. The airline has joined the Clean Skies for Tomorrow Coalition, a global advocacy that advances the commercial scale of SAF production for broad adoption in the industry by 2030.[11]

It is also investing in lower emission aircraft, and recently announced the purchase of its first battery-powered electric plane which it plans to fly as a commercial demonstrator in 2026.

In the agriculture sector, New Zealand-based agri-tech firm Robotics Plus has rolled out Prospr, a multi-use autonomous vehicle that can accomplish automated orchard and vineyard tasks with the promise of creating a low carbon footprint.[12]

Technology is also being used to collect data and optimise operations. For example, Downer, an integrated transport provider, has enhanced energy efficiency within its rail fleet in Australia and New Zealand through data analytics. It developed a deeper understanding of energy consumption patterns within its rail systems and adapted responses based on daily weather variations and passenger demand fluctuations.[13] With a goal of achieving net zero by 2050, Nestlé has also begun using data analytics to reduce waste and track energy usage to build efficiencies.[14,15]

Finding—and building—the right talent

Focused ESG efforts require the leadership and support of industry and subject matter specialists, but New Zealand businesses are falling behind on hiring appropriate sustainability professionals to strengthen their teams. Only 31% of surveyed companies have allocated dedicated personnel and resources for the promotion of environmental sustainability—notably lower than the 58% and 41% tracked in the US and Canada, respectively, for instance.

"ESG consultants can be out of budget for SMEs, so businesses often try to fall back on do-it-yourself methods and look at online resources. Having somebody who understands these resources enough to implement strategies properly and who can put the time within the business is a resource struggle. [Firms] don't often have the luxury," explains Mr Rouse.

Positive change may be afoot as New Zealand businesses endeavour to channel more resources towards sustainability activities, such as staffing up for sustainability. In 2022 60% of organisations increased their resourcing for sustainability over 2021 and 68% of organisations are effectively resourcing sustainably.[16]

Moreover, companies are also now weaving sustainability into other roles such as operations management, marketing, human resources, procurement and customer service.[17] Even then, firms would do well to build an internal cadre of sustainability specialists who can oversee effective ESG implementation and inject a culture of sustainability into the organisation.

Air New Zealand has been building its sustainability talent within the business. "We have a small, but growing, and dedicated team of incredibly hardworking individuals who play a critical role in making Air New Zealand more sustainable," says Ms Hannifin. "They lead work to bring sustainability initiatives to life and help to embed sustainable thinking in our workgroups more generally."

Businesses that lack in-house resources could partner with organisations that advise on ESG strategy, collect, interpret and analyse data, and provide compliance related guidance. Such investments will become a necessity with increasing regulations and will also, in time, protect business' bottom lines.

Challenges in realising best practices

Many firms face a common challenge in managing their data, which often exists in isolated silos and is scattered throughout their operations. This fragmented data landscape hinders the extraction of valuable insights regarding the sources of carbon emissions and energy consumption, making reporting on Scope 1 and 2 emissions challenging. This issue is further compounded when it comes to reporting Scope 3 emissions, which captures the upstream and downstream elements of the supply chain.[18]

Meanwhile, New Zealand's investment leaders are grappling with increased pressure to enhance their reporting standards, which the government is pushing hard with its ESG-driven programmes. As part of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, as of January 1st 2023, entities in New Zealand with a balance sheet closing on March 31st must begin the process of observing and collecting data related to emissions, standards and initiatives.[19] Companies will be challenged to appreciate the process beyond mere compliance, and to consider these requirements as an essential part of competition. Meeting these requirements will require time and investments in developing the right sustainability talent.

Finally, businesses will need to harness the potential of technology to boost their ESG efforts without losing sight of its environmental impact. Data centres and network transmissions contribute 1% of greenhouse gas emissions—a deceptively small figure that actually surpasses the emissions of many countries.[20] Corporate leaders must guide their firms in a delicate balancing act that will allow them to mindfully leverage the strengths of technology. They could do this by driving better data collection to enable real-time efficiency monitoring and engaging in investments into responsible IT product development.

Looking ahead

Encouragingly, New Zealand companies are demonstrating high awareness of the significance of achieving ESG objectives. Even supplier selection is becoming more rigorous in favour of sustainability: 36% of the surveyed firms confirm that they give importance to environmental sustainability performance when evaluating vendors and suppliers. Businesses are also making conscious choices to utilise low-carbon, reusable and recyclable materials.[21]

Nonetheless, companies require more comprehensive and tailored strategies to proactively address a future fraught with environmental and social challenges. To pave the way for impactful ESG efforts, companies should establish ambitious yet achievable goals, bring on board expertise where necessary, and act on sustainability initiatives swiftly, given the urgency of the climate crisis.[22]

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>
> Dave Rouse, CEO, CarbonClick

With the Financial Sector Amendment Act 2021, New Zealand's businesses face a critical deadline in April 2024, by when they must report their ESG data. To meet this obligation effectively, they should invest in the collection and thorough testing of high-quality data. Accessible and readily available high-quality data will empower New Zealand's investment leaders to construct a robust risk management framework, formulate an organisational strategy, and ultimately establish a governance framework to ensure compliance with reporting deadlines.[23]

More businesses in New Zealand should infuse sustainability principles into their procurement practices, which can trigger substantial transformation across the entire supply chain. When engaging with suppliers, businesses should consider critical questions, including about sustainable options, product origin, labour conditions, and product and packaging materials.

Companies must broaden their perspective on the potential impact of their ESG activities—and how these ultimately benefit the world.

Despite challenges, there is optimism regarding the pace of change driven by consumer awareness, global influences and government policies. "I am optimistic that we are seeing stronger consumer-led drivers that will force this change in a sustainable manner," says Mr Rouse. "The economics will be there to drive these decisions to be the smart decisions if a business wishes to remain attractive to its whole customer base."

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