

State of Sustainability 2022

We understand the challenge but are we doing enough?

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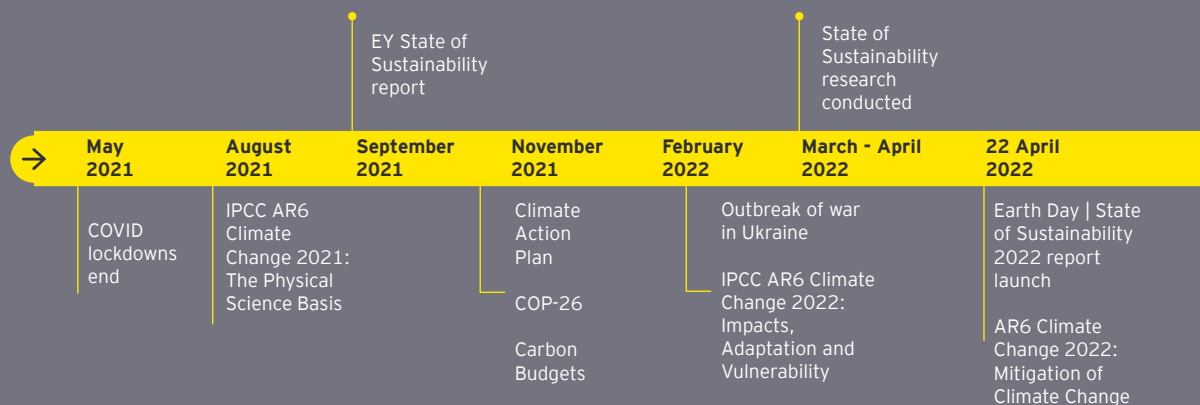
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Foreword



Since EY announced its climate ambition in January 2021, we have sought out the true story of sustainability among Irish businesses. We believe that business must work for sustainability, and that with the right mindset and planning, sustainability will work for business and generate long-term value.

Our field work for SOS 2022 ran through to the Easter break and the results indicate a nuanced picture of how Irish businesses see themselves with respect to sustainability. In contrast to the SOS 2021 Report, we now have had three Intergovernmental Panel on Climate Change (IPCC) reports, the COP26 process, ratification of Irish carbon budgets, a new Climate Action Plan 2021, and the stark reminder of our over- and inter- dependence on fossil fuels due to the ongoing energy and inflation crisis.

Interrogation of what climate action will demand of us, and how sustainability must be integrated into every part of our lives, are daily features in the Irish media. There is national dialogue and debate on almost every aspect of the climate agenda. The task we have set ourselves will require what former President Mary Robinson calls a “moonshot” effort from the entire nation, her point being that this undertaking is not unlike that of the United States when it set out to put a man on the moon within just eight years. In this characterisation, the other major point is - we can do this!

SOS 2022 paints a picture of a more informed Irish business community that is in the midst of appreciating the sustainability challenge. A large cohort has made the difficult journey to the base of the mountain and can now more fully appreciate what needs to be achieved. Combined with current headwinds, the research suggests that this group that is at the base of the mountain has lower confidence in successful outcomes and a reversion and focus on just getting things done, as opposed to seeking out value-led sustainability opportunities.

We believe that SOS 2022 reflects a natural evolution and process whereby Irish businesses are now truly understanding the challenges, and with some more time would have better and more ambitious solutions to address those challenges. They have just had one look at the big mountain in front of them and it is daunting. We must start the climb.



Stephen Prendiville
Head of Sustainability, EY Ireland

A photograph of a woman with long brown hair, wearing a light pink coat and white trousers, walking away from the camera on a paved sidewalk. The sidewalk is lined with a black metal fence on the left and a stone wall with a black gate on the right. In the background, there are historic buildings and cherry blossom trees in full bloom, with pink petals falling. A blue bus and other pedestrians are visible in the distance.

Chapter 1:

Awareness

Awareness of sustainability remains quite high among Irish organisations. 64% of respondents to this year's EY State of Sustainability survey said their organisations had either a high or complete level of awareness in relation to sustainability considerations and implications, up marginally from 61% when the last survey was undertaken in 2021.

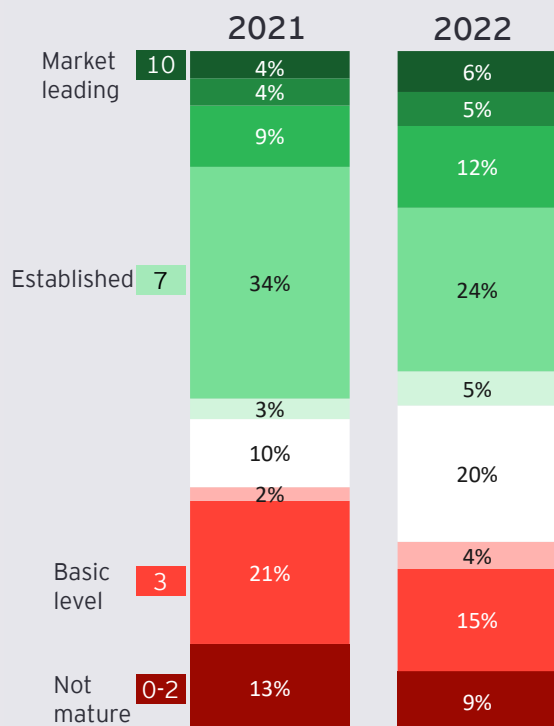
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The recent IPCC Report has found that it is now ‘almost inevitable’ that temperatures will rise above 1.5C – the level above which many of the effects of climate breakdown will become irreversible. It is alarming therefore that one third have little to no awareness of sustainability considerations and implications for their business. Every organisation is responsible to implement change and the time for action is now.

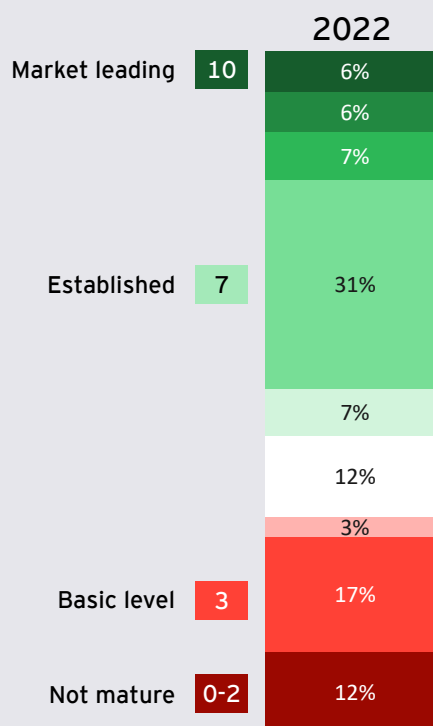
Lorraine McCann

Director of Climate Change and Sustainability Services, EY Ireland

To what extent (1-10) would you say your organisation engages and consults with relevant stakeholders on sustainability issues to shape strategy and drive organisational focus?



To what extent would you say your organisation looks at the environmental, social, and economic impacts and dependencies of its suppliers?



While there may be a slight sense of disappointment that awareness levels haven't increased by more in the wake of COP26 and the IPCC reports published within the last six months, it is worth noting that the question focuses on considerations and implications for businesses specifically. Public awareness of sustainability may have increased, but this does not necessarily translate into granular analysis and application for Irish businesses who predominantly trade within and from Ireland.

In a more encouraging finding - 62% of respondents said there has been a significant increase in focus on sustainability in their business in the last year. This thankfully shows that the trend is beginning to move in the right direction; however, the urgency of the matter is yet to hit home.

This lack of urgency is perhaps nowhere better exhibited by the fact that despite the high-profile debates at COP26 and the quite dire warnings from the IPCC and others, just 39% of those surveyed say that there is a sense within their organisation that time is running out to be proactive on sustainability.

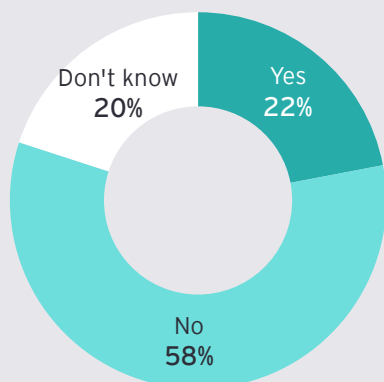
Things appear to be moving in the right direction when it comes to the importance of sustainability to the customer. 79% believed the sustainability of their product or service is very important to their customers, while the importance of the sustainability of business operations is said by 83% of respondents to be very important to their customer, up from 76% in 2021.

Stakeholder engagement

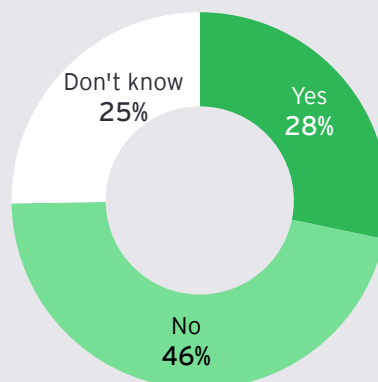
However, when we look at the broader stakeholder landscape, engagement around sustainability shows room for improvement.

Does your organisation have science-based targets in place to achieve net zero emissions by 2030 or earlier in line with the Paris Agreement?

2021



2022



Just over half (53%) of respondents said their organisation engages and consults with relevant stakeholders on sustainability issues to an established or better level. While that is a slight increase from the 47% level of last year, the gap between this and the acknowledged importance of the issue to customers is difficult to explain.

Furthermore, just 19% said their organisations had a very good level of engagement when it comes to the environmental, social, and economic impacts and dependencies of suppliers. These low levels of stakeholder engagement are not entirely the responsibility of the organisations surveyed, however. Rather they point to a systemic issue that spans the business landscape. Just 49% of respondents agreed that stakeholders are increasingly enquiring about the sustainability impact of their organisations.

53%

said their organisation engages and consults with relevant stakeholders on sustainability issues to an established or better level.

As time goes on, organisations will increasingly become responsible for Scope 3 emissions right across their value chain, which will have far-reaching implications for businesses of every size.

Science-based Targets

The research shows a small but encouraging increase in the number of Irish-based organisations that have adopted Science-Based Targets. 28% of respondents said their organisations have such targets in place, up from 22% in 2021.

While the overall quite high level of understanding of sustainability considerations is to be welcomed, there is still much work to be done on translating that into meaningful action. Indeed, a very significant majority of our respondents acknowledge and understand the importance of sustainability to their customers but that do not appear to be able to convert that into meaningful strategy formation.

Chapter 2:

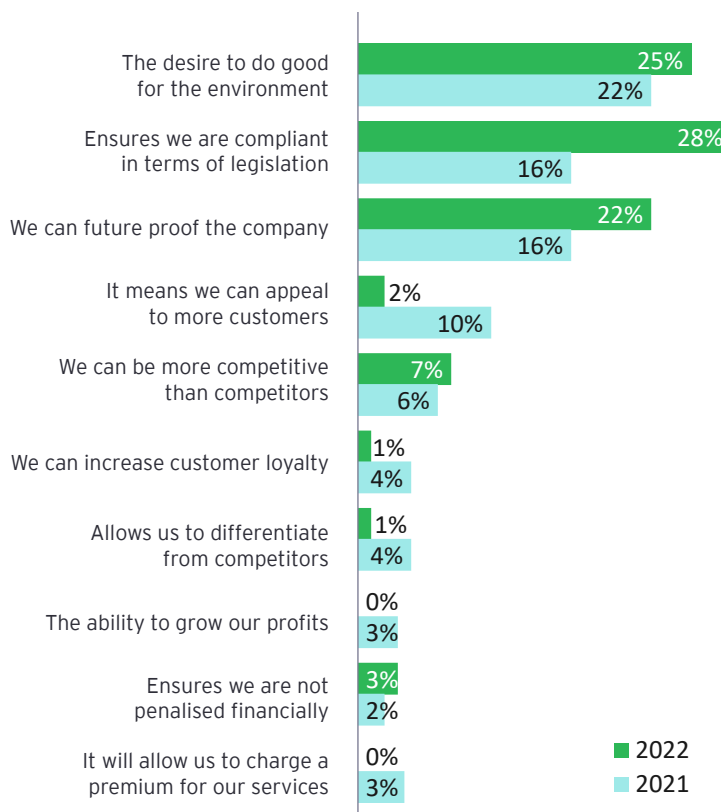
Key factors driving sustainability efforts

Compliance mindset

Undoubtedly, there is some progress being made on awareness of sustainability; however, it appears that the motivations behind sustainability-related actions are driven by a compliance mindset.

While customer expectations were also prominent as a driver, competitiveness and value-adding potential barely registered.

In your opinion, what are the key factors driving any sustainability efforts in your organisation currently?





We expect the percentage of organisations citing regulatory compliance as a driver for sustainability to further increase going forward. The introduction of the EU Taxonomy, the Corporate Sustainability Reporting Directive, and Task-Force for Climate-Related Financial Disclosures, to name a few, have ignited action amongst many Irish organisations in 2022. The pace of regulation is accelerating rapidly, and many organisations are on the back-foot in terms of compliance.

Emer Keaveny

Associate Partner, Climate Change and Sustainability Services,
EY Ireland.

Compliance emerged as the clear number one driver this year with 28% of respondents citing it, jumping from 16% last year. Some proportion of that increased focus on regulatory compliance may be due to the changing nature of the regulatory landscape. Regulation is in a state of flux and many organisations may well be holding back on taking their own sustainability actions while they wait to see what the next piece of regulation looks like.

A desire to be compliant should not necessarily be seen in a negative light, rather it should be viewed as a natural impulse on the part of business professionals in the same way as a commitment to tax compliance would.

Indeed, the number of organisations who believe compliance in itself is enough when it comes to sustainability efforts declined quite significantly year on year. Just 43% of respondents agreed that if the business is compliant with Irish government and EU-related sustainability standards, they were confident that it has done enough from a sustainability perspective. This was down from 53% in 2021.

This is consistent with the improvement in findings around having sustainability reporting aligned to recognised frameworks and standards such as the Global Reporting Initiative, Sustainability Accounting Standards Board and so on. 54% of respondents said their organisations had applied such a framework or standard, up from 46% last year.



43%

agreed that if the business is compliant with Irish government and EU-related sustainability standards, they were confident that it has done enough from a sustainability perspective.



Data and reporting

Almost half (48%) of the organisations surveyed engage a third party to provide some assurance of their sustainability reporting, results, and measures.

The number of organisations with systems in place to record sustainability-related data remains disappointing at 58%. This suggests that more than four in 10 have no way of truly knowing how they are performing in relation to emissions and other sustainability measures.

A separate finding in relation to the level at which organisations report on sustainability performance to drive transparency on matters relating to sustainability was broadly in line with last year with 41% saying it was established or better as compared to 40% in 2021; however, there was a slight increase in the proportion of organisations that have none at all.

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It appears the penny is starting to drop. People are beginning to appreciate the challenge more fully. With this understanding, Irish businesses are also experiencing a greater sense of despair and anxiety around the achievement of goals. This may also be why we see a narrowing of Irish business focus and doubling down on compliance requirements as a main focus point.

Stephen Prendiville

Head of Sustainability, EY Ireland.



The negative impact on reputations and shareholder value from misreporting could be significant and the pressure to meet publicly stated targets cannot not be underestimated. Organisations need to adopt processes to ensure information reported can withstand scrutiny. Data must be collected, not only from their own organisation but also from those within their value chain. How this information is obtained, reviewed and reported needs to be top of mind and technology-enabled solutions considered

Julie Fenton
Leader Forensic & Integrity Services Ireland

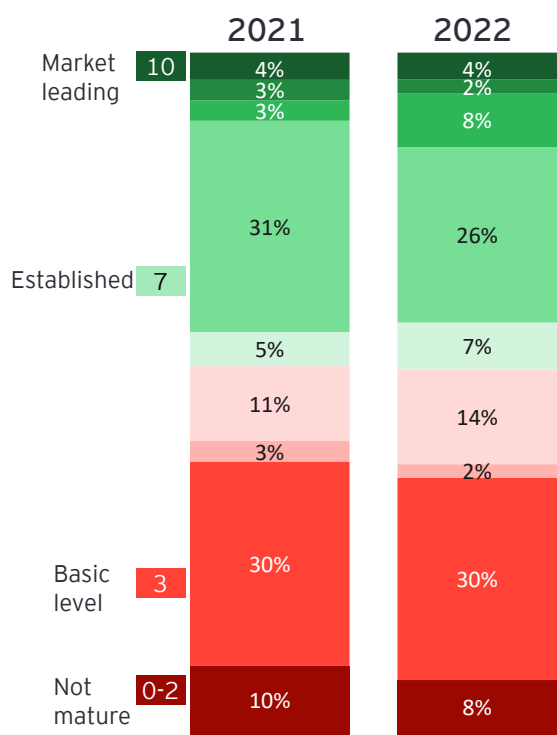
Doing the right thing and seeing the opportunity

The second-most-cited driving factor behind sustainability efforts was a desire to do good for the environment, at 25% up from 22% in 2021. In addition, 62% of respondents said there has been a significant increase in focus on sustainability in their business in the last year.

Opportunities for value generation came quite low down the list of sustainability drivers. We will cover value generation in the next chapter.

Overall, the perception of sustainability strategies as being almost purely cost and compliance-related rather than value-generative is hard to shake off and it is also likely to be damaging to the overall efforts in achieving the 2030 goals.

To what level would you say your organisation reports on sustainability performance to drive transparency on matters relating to sustainability?



Chapter 3:

Value generation opportunities

One of the main barriers to the adoption of sustainability strategies over the years has been the widely held and erroneous perception of such measures as cost-increasing as opposed to value-generating. While there is strong evidence globally that this attitude is changing for the better, the results of our survey indicate that there is some distance left to travel.

This year, for the first time, we asked participants about the level to which their organisation has considered the opportunities for value generation from sustainability/ESG or net zero strategies. Just 36% rated this as established or better.

That result deserves further analysis. It suggests that a significant proportion of organisations do not really believe there is value to be generated from sustainability or net zero strategies. Or, at the very least, that they haven't yet had an opportunity to consider the value they might offer.

In light of the clear shifts in investor sentiment and consumer behaviour in relation to sustainability issues in recent years, this must be seen as surprising, to say the least. Investors are increasingly equating climate risk with financial risk while consumers are voting with their wallets when it comes to ethical and sustainable options.

Simply put, organisations that can demonstrate superior sustainability credentials are more appealing to investor and to customers. They can enjoy preferential interest rates on borrowings as well as clear competitive advantage in markets.

However, many organisations appear to be at worst ignoring, or at best paying scant attention to, those opportunities.

That inference would appear to be confirmed by the fact that just 40% of respondents agreed that their company's sustainability efforts to date have positively impacted the bottom line. This was a fall from 44% in 2021.

Our sustainability efforts have positively impacted the bottom line

2021 44%

2022 40%

That poor perception of the value-adding capacity of sustainability strategies is confirmed in the responses to the question on the key factors driving sustainability efforts in their organisations that we mention in Chapter 2. Just 7% cited improved competitiveness; 2% mentioned appealing to more customers; while no respondents at all said sustainability would improve the organisation's ability to grow profits.

And there doesn't appear to be any particular urgency attached to the issue with just 40% of respondents saying their organisation will be consulting external sustainability/ESG advisors in the next six to 12 months to help improve their sustainability approach.

Regulation alone will not cause businesses to become sustainable enterprises, a change in mindset in relation to the long-term business value of sustainability and net zero strategies is also required. The findings in relation to current attitudes to value generation opportunities indicate that we have some way to go on that journey.

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These results leave me in two minds. While the urgency of the sustainability agenda requires action, the motivation for that action is a secondary concern. If we get results because businesses are focused on compliance, then the end will justify the means.

On the other hand, we know that businesses that make sustainability part of their value-creation mindset experience better results, increased customer loyalty, brand and reputation improvements, more stable supplier networks and overall an easier and more successful time in business..

Stephen Prendiville

Head of Sustainability, EY Ireland



Chapter 4:

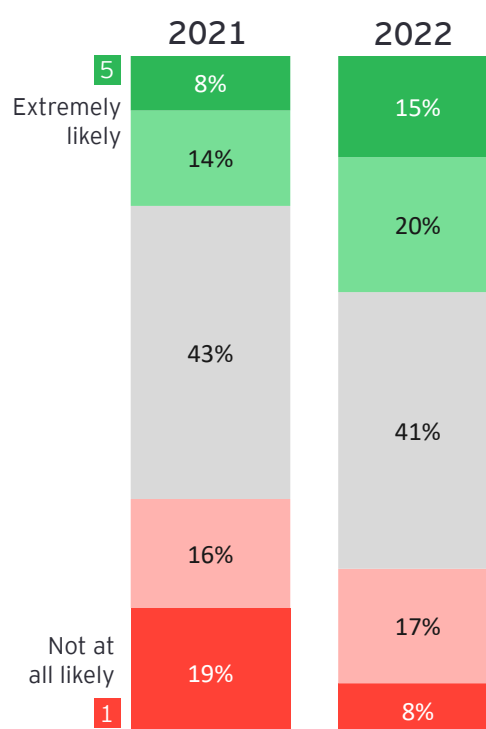
Focus and actions

When we consider the findings of the study holistically, there appears to be a growing sense of realism when it comes to the scale of the climate action and sustainability challenge.

35%

of organisations (that did not have science-based targets) said it was unlikely that they would be able to reach carbon neutrality by 2030

If your organisation had to be carbon neutral by 2030 how likely do you think it is that your organisation would be able to achieve this target?



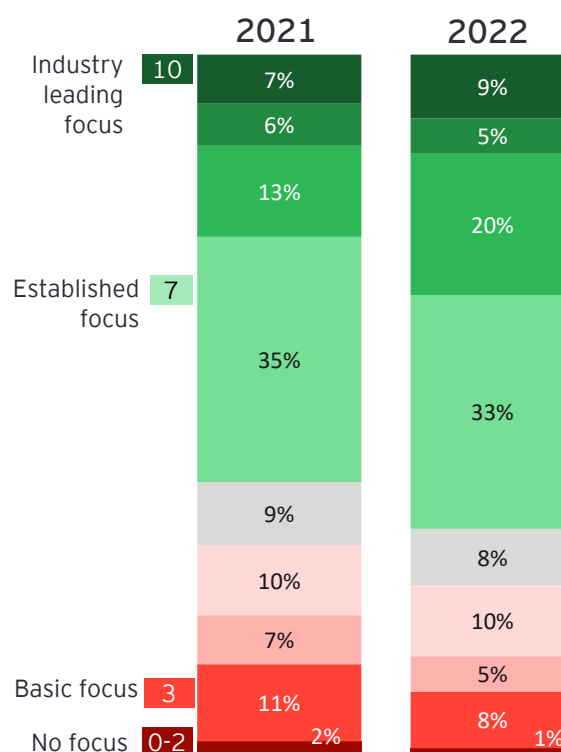
In last year's survey, 25% of organisations (that did not have science-based targets) said it was unlikely that they would be able to reach carbon neutrality by 2030. That rose to 35% this year. This points to a deeper understanding of the true nature of the issue facing them and a growing appreciation of the level of transformation required across the entire organisation and beyond.

On the other hand, the results of our survey paint a decidedly mixed picture when it comes to organisations' focus and actions on sustainability. There appears to be an increased level of accountability within organisations for reaching sustainability targets, but the level of focus seems to have fallen down the agenda.

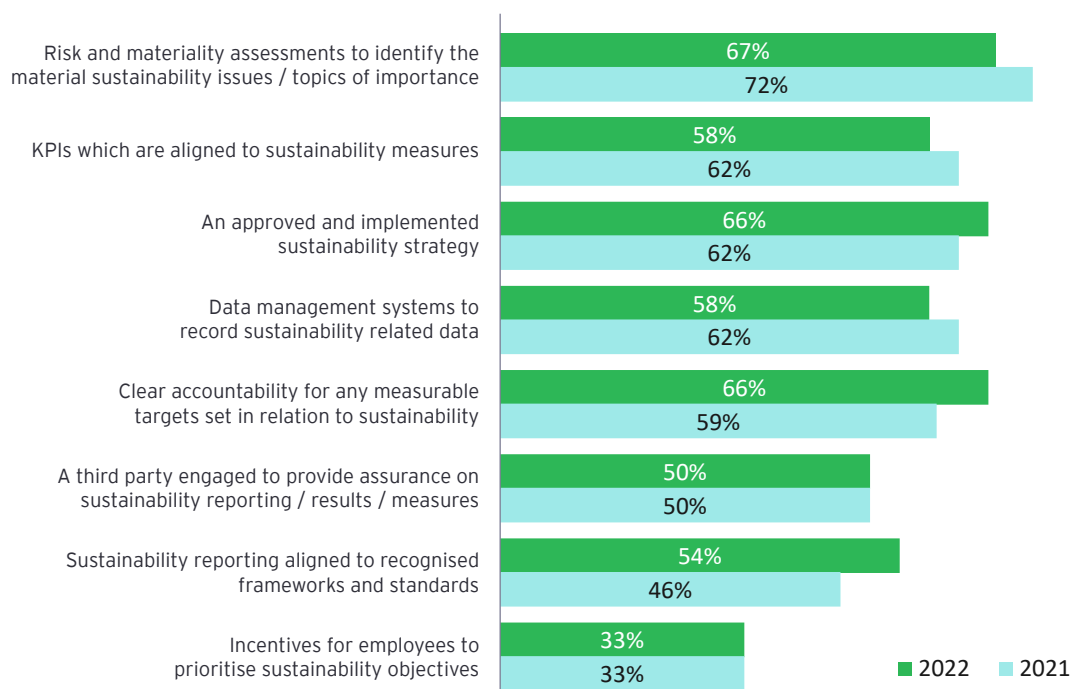
Just over six in 10 (61%) of respondents rated their organisation's focus and actions on sustainability as established or better, behind last year, where 67% ranked it the same. The graph below demonstrates a notable deterioration, which could be seen as alarming.

However, these findings should all be seen in the context of the rapidly changing environment over the course of the last number of months. The research was conducted right before the publication of this report, until mid-April, 2022. Up until the beginning of March, there were quite significant tailwinds building behind the sustainability agenda. COP26 had added new momentum to the issue while IPCC reports and growing climate awareness among the wider public were adding to it.

How would you rate your organisation's focus and actions on sustainability currently?



Thinking about the different strategies and processes you might have in place in your organisation in respect to sustainability do you have the following in place currently?



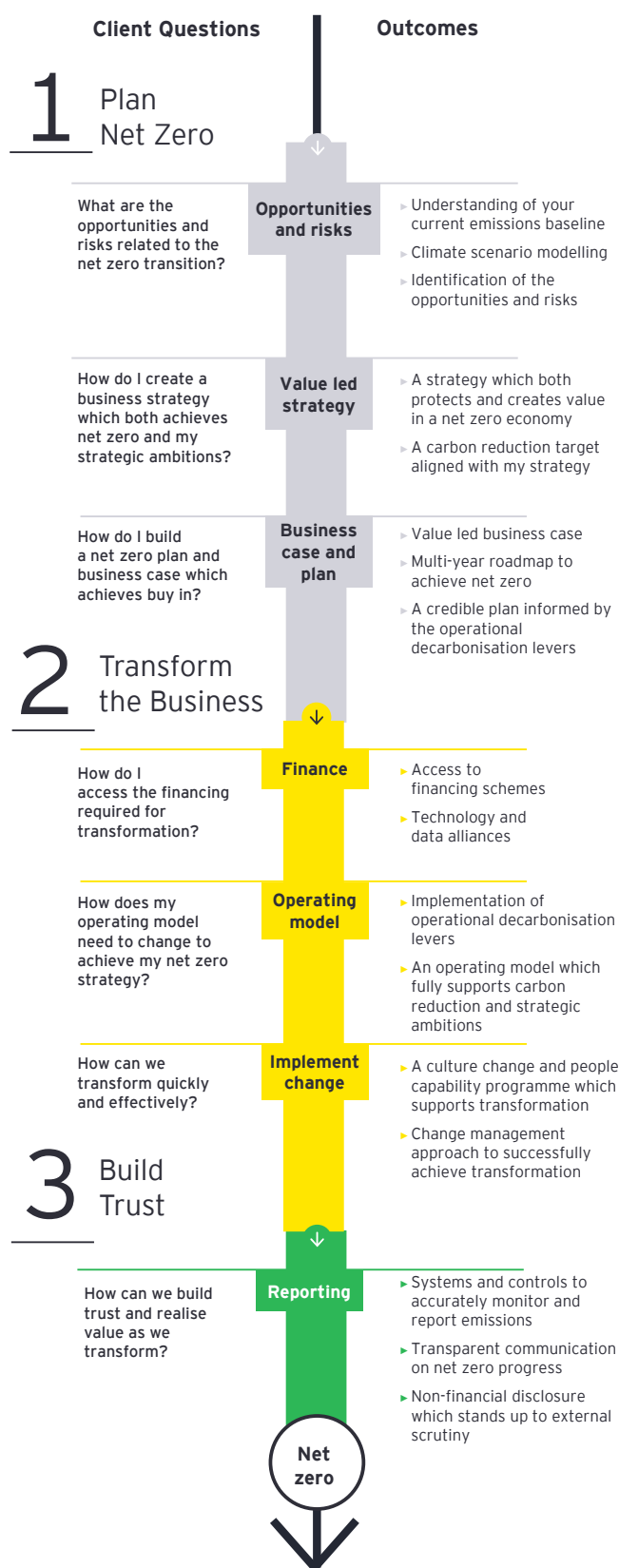
Skyrocketing inflation and energy prices coupled with the outbreak of the war in Ukraine may have stalled much of that momentum and dissipated the sense of post-COVID optimism that appeared to be taking hold. Tailwinds effectively turned to headwinds, and this may explain at least some, if not all, of that loss of focus.

The news was no better when it came to the different strategies and processes in place in organisations in respect to sustainability. Most tellingly there was a significant fall in the number of organisations with risk and materiality assessments in place to identify material sustainability issues and topics of importance. 67% of respondents said their organisations had such measures in place this year, down from 72% in 2021.

It is difficult to see how any assessments can take place among those organisations which do not have the data available to base them on. At the very least, this suggests a certain amount of guesswork involved.

Overall, while there were some significant differences to last year's findings, the general picture is one of growing understanding for the full ramifications of decarbonisation. Almost two-thirds of respondents said their organisations still have a sustainability strategy in place despite the significant headwinds faced. This is a cause for encouragement and offers a platform for improvement in the coming year and beyond. While we can see that confidence is low in light of growing understanding, we can hope that this is a temporary sentiment that may correct itself in the year ahead as more organisation move from understanding to action.

EY Carbon is the end-to-end approach that will deliver your NZ transformation



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Translating sustainability plans and ambitions into actions and business transformation is going to be the challenge of the next year and beyond. Engaging with clients this past year, we know that moving from the strategy to the actions on the factory floor is challenging for any business while maintaining day-to-day operations. It is why we have created EY Carbon, our end-to-end decarbonisation journey toolkit, to support our clients to Plan, Transform and Build Trust for their sustainability agenda, and to apply a comprehensive, value-led solution mindset to the net zero goals of organisations.

Vivienne McCourt

Director, Sustainable Strategy and Innovation, EY Ireland.



Conclusion

The State of Sustainability 2022 Report shows much work lies ahead for our sustainability and climate action journey. Irish business must start to attack the challenge with vigour and dedication, fully resourced and supported, if we are to have any chance of collectively hitting these moonshot ambitions. And we must - the consequences of collective global inaction will be dire, and will destroy any chances for the next generation to live quality lives. Ultimately, if we do not act - chances are that many Irish businesses won't have customers in the future - they will be too busy trying to live for the basic necessities.

We are at a crossroads. We either start to climb the mountain, or we retreat in its shadow.



Methodology

About the survey

- This research was conducted by Empathy Research in April 2022 amongst a nationally representative sample of 200 businesses in Ireland with 50 or more employees. The research respondents were senior level representatives including managing directors, business owners, chief operating officers, senior managers and heads of sustainability.

Contacts



Stephen Prendiville
Head of Sustainability
stephen.prendiville1@ie.ey.com



Lorraine McCann
Director, Climate Change and
Sustainability Services
lorraine.mccann@ie.ey.com



Emer Keaveny
Sustainability Assurance
Market Lead
emer.keaveny@ie.ey.com



Deirdre Hogan
Sustainability Tax
Market Lead
deirdre.hogan@ie.ey.com



Sean Casey
Sustainability Consulting
Market Lead
sean.casey@ie.ey.com



Aziz Ahmad
Sustainability Strategy &
Transactions Market Lead
aziz.ahmad@ie.ey.com



Fidelma Clarke
Sustainability Finance
Market Lead
fidelma.clarke@ie.ey.com



Vivienne McCourt
Director, Sustainable
Strategy & Innovation.
EY Carbon Solution Co-Lead
vivienne.mccourt@ie.ey.com



David Cashman
Senior Manager, Consulting.
EY Carbon Solution Co-Lead
emer.keaveny@ie.ey.com



Ciara Sheehan
Manager, Assurance.
EY Carbon Solution Co-Lead
ciara.sheehan@ie.ey.com



Julie Fenton
Leader Forensic & Integrity
Services Ireland
julie.fenton@ie.ey.com



Graham Reid
EY Ireland Partner and
Head of Markets
graham.reid@ie.ey.com

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