Redefining business success to accelerate the transition

Succeeding in transition needs to go beyond traditional ESG approach

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Introduction

Frameworks and standards project our collective representation of success, which needs to be reinvented

The recent multiplication of climate commitments has been accompanied by the proliferation of transition frameworks

In recent years, **climate commitments and strategies** have largely extended from the sphere of public policy and international negotiations to be adopted by **corporates and financial institutions**.

Thousands of companies have set **decarbonisation targets** that have been validated by institutions such as the **Science-Based Target initiative** (SBTi). The **Glasgow Financial Alliance for Net Zero** (GFANZ) gathers **500+ financial institutions** that have committed to net zero by 2050.

Alongside such commitments, a wide **variety of other transition frameworks** have emerged, targeting company-level action:

- Measurement and accounting methodologies
- Disclosure guidelines and regulations
- Sustainable activity taxonomies
- Climate scenario
- Alignment methodologies
- Extra-financial rating agencies
- Sustainability risk management practices
- Sustainable finance products
- Data/index providers methodologies

Many frameworks have been **endorsed** by market-led initiatives, companies, civil society organisations, and regulators. They have become the norm in the world, following in the footsteps of international intiatives such as the COP.

Why do these frameworks matter?

Frameworks have become the new **common sustainability language** between corporates, regulators, and financial institutions to define market standards and best practices, set decarbonisation targets, develop action plans, and monitor progress against global climate scenarios and sustainable development goals.

These standards **shape our representation of success**, and in this sense, they are instrumental in driving the transition towards more sustainable, resilient, and just economic systems and societies.

They have started to **extend the notion of "success"** from the purely financial performance spectrum to non-financial, sustainability perspectives.

Some of them have shaped **structural changes** and **inspired new regulations**:

> The **Taskforce on Climate-related Financial Disclosures** (TCFD) framework, published in 2017, structured the engagement strategies of the world's largest investors, before becoming a mandatory disclosure standard in many jurisdictions. It was recently integrated into the **International Sustainability Standards Board** (ISSB) **guidelines**.

> The **European Taxonomy**, the first draft of which was published at the end of 2018, has become the cornerstone of a set of European directives such as the **Corporate Sustainability Reporting Directive** (CSRD), and has inspired multiple jurisdictions around the world to follow suit.

There have been some **noteworthy developments** in recent months within this plethora of frameworks and initiatives. New initiatives have been created, and some existing frameworks have evolved to focus on transition planning and to embrace a broader definition of transition beyond decarbonisation.

Despite these encouraging evolutions, **redefining success beyond a purely financial perspective is still needed**.

Companies need a strategic compass to navigate the much-needed transition, on top of these frameworks

The multiplication and entanglement of these different frameworks are complex to grasp, even more so because they are so diverse in nature, influence and scope.

In this fast-changing and complex environment, corporates, investors and even regulators need a **"map" of these frameworks**, and **a strategic compass** to steer their transition**.**

In this series of briefs, Blunomy:

- Provides some guiding principles on what type of company action contributes meaningfully to the transition towards a sustainable economy
- Helps the reader navigate and understand the influence, dynamics, roles, and interactions of current transition frameworks, and how they are helping to structure a new sustainability narrative
- Assesses how these frameworks perform against the guiding principles of a sustainable transition strategy and perspectives

Brief 1

Corporate actions must align with structuring guiding principles to contribute to a sustainable economy

Our narrow representation of success has shaped rather unsustainable economic systems

Our current representation of success is narrow and biased, as it has been shaped by focusing on the creation of short-term economic value. This vision has led societies to structure themselves around single economic indicators: GDP and GDP growth for governments; revenue growth, financial profitability, valuation, and market share for companies.

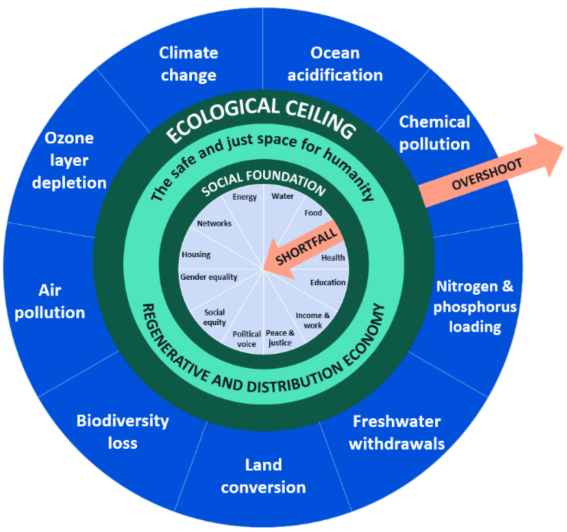
Several economists such as Mahbub ul Haq and Amartya Sen tried to develop an alternative economic approach with the "Human Development Index" in 1990, but it did not lead to a paradigm change.

In the meantime, we **have breached six of the nine planetary boundaries** (according to the Stockholm Resilience Center), and **many of our social foundations either remain fragile or are worsening.**

To reverse the trend and enable the transition to a sustainable economy, **we must change our representation of success.**

In a world that needs to redefine success, companies can adopt a responsible approach by moving towards a sustainable economy

"Transition" has been increasingly referred to by regulators, standard setters, corporates and investors, acknowledging the limits of focusing on "green" only. Many institutions have tried defining the transition in its complexity. However, it is difficult to define such a vast and multifaceted concept.



"Transition" can encompass different scopes: energy transition, climate transition, environmental transition, and just transition (which covers social dimensions). The economist Kate Raworth introduced the concept of ***"Doughnut Economics"*** in 2017, which describes the intertwining ecological and social dimensions of the transition.

"The Doughnut consists of two concentric rings: a social foundation, to ensure that no one is left falling short on life's essentials, and an ecological ceiling, to ensure that humanity does not collectively overshoot the planetary boundaries that protect Earth's life-supporting systems."

Blunomy believes that a company can be considered "in transition" if it considers the following elements and has these attributes:

Contribute to alignment with certain planetary boundaries while not significantly harming others

Truly transform its business with real actions to align or helping others to align with these boundaries

Move in the right direction to pursue a long-term ambition at the right pace – even in the short-term

Standard-setters and companies can adopt three guiding principles to better assess corporate success and qualify a company "in transition"

A **common definition of transition is not enough for companies as they need further guidance on each step of their "metamorphosis"**: assess, commit, plan, act, monitor.

Different **sustainability frameworks** offer a **new representation of success** for companies, and may also help to provide a **better compass for action** than the representation of success in recent decades, which has been purely economic and largely short-term.

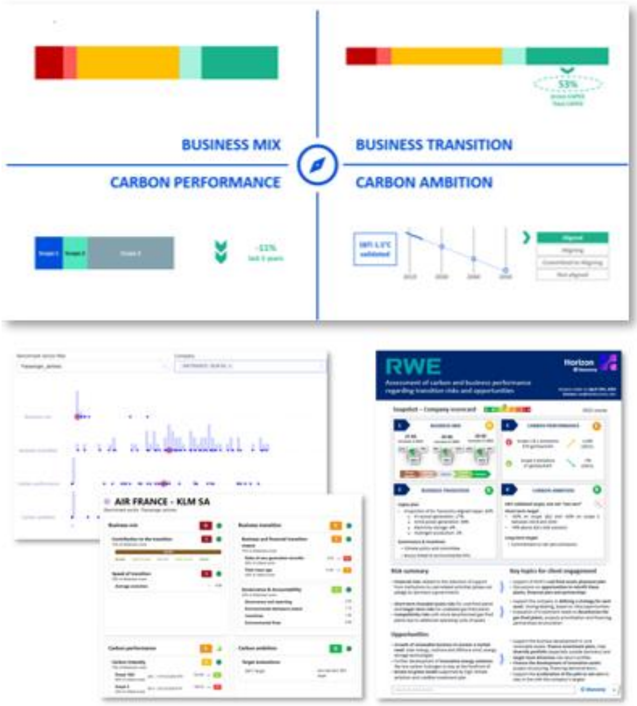
Frameworks should be based on **three guiding principles**:

- **1** - Measure the companies' **business mix and strategic readiness for the future,** going beyond ESG perspectives
- **2** - Focus on **real transition speed and change,** beyond long-term target-setting
- **3** - Be able to discern the **real services provided by companies** to humanity

Some **lenders and investors have started to "use" these different frameworks integrated in methodologies** capturing these three dimensions because they help to **assess the extent to which a company is "future-proof", which should be an essential part of its valuation and risk profile assessment.** By integrating this business perspective, these methodologies become a **real strategic compass.**

As an example, banks who set sector decarbonisation targets for their loan portfolio (because of their commitment to the Net Zero Banking Alliance – part of the GFANZ) have started to use such methodologies . Some banks have also strengthened their client engagement capabilities on climate transition topics (both risks and opportunities) using these methodologies and tools.

Case study – Horizon – A corporate transition scoring methodology and tool co-developed* by Blunomy



Horizon is an innovative and **transparent transition scoring** methodology and tool **inspired by the best transition standards and frameworks** (i.e. GHG Protocol, GFANZ) to help **corporates and financial institutions steer their transition strategy**.

Structured around **4 key dimensions**, it assesses the maturity and speed of corporate climate transition, focusing on business mix transformation and not just carbon profile.

The **sector-specific** approach enables highly granular analysis of the sector-specific challenges and opportunities, and **detailed benchmarking**.

Horizon supports **strategic engagement** with clients, suppliers, and investees, and helps to identify sectoral leaders and to challenge corporate climate ambitions and transition plans.

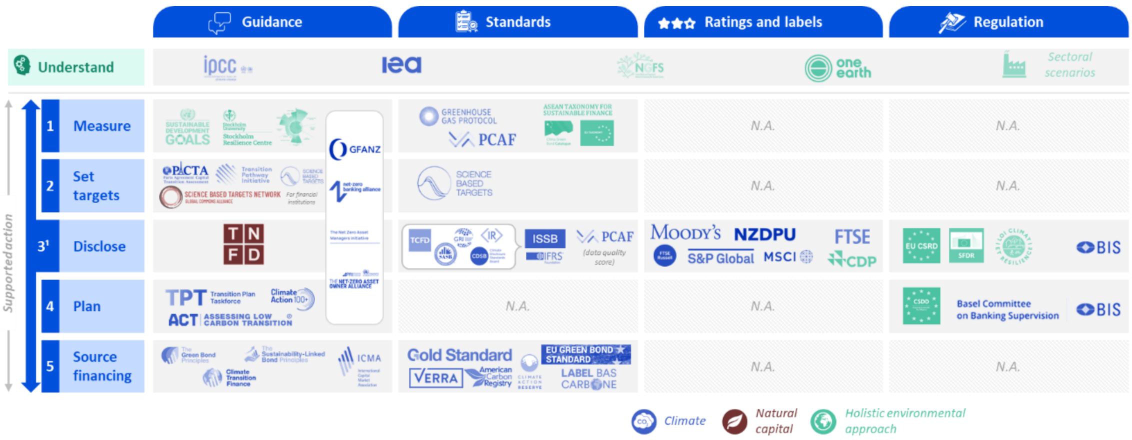
** Co-developed with first users and clients*

Companies must understand and navigate this fast-changing environment of transition frameworks

Over the past ten years, countless sustainability frameworks have been developed, each with a different nature and purpose

The plethora of sustainability frameworks and initiatives can be confusing. For a clearer picture, frameworks can be qualified / classified based on the following dimensions:

- **Type** – guidance, voluntary standards, ratings, regulations, scenarios
- **Targeted users** – corporates, financial institutions, public institutions
- **Scope of the transition covered** – climate, natural capital, holistic sustainability approach
- **Usages to drive action** – understand, measure, target-setting, disclosure, plan, financing



Besides mandatory regulations, companies can assess what frameworks and standards they should leverage to frame their transition strategy, depending on:

- **Their level of maturity -** measure and disclose, set targets, frame a transition plan, implement a transition strategy
- **The materiality of their business activities on various sustainability topics –** decarbonisation, climate adaptation, nature, just transition, etc.

Many voluntary frameworks have been widely adopted across geographies, while some mandatory regulations have emerged in parallel

The recent past has seen the acceleration of the adoption of voluntary climate transition frameworks by corporate and financial institutions:

Reporting – As of 2023, more than 23,200 companies disclosed data via the **CDP** questionnaires (climate, forests, water), 100 times more than in 2003, and more than twice as many as in 2020. Over 700 financial institutions, representing US$142trn AuM, request 33,000+ companies to disclose to them through CDP in 2024.

Climate risks and opportunities management – The **TCFD** was founded in 2015 and quickly became a global reference framework. As of 2023, nearly 5,000 organizations have publicly declared their support for the TCFD's recommendations.

Target-setting – Despite recent criticisms, the **SBTi** has created unprecedented momentum on carbon reduction target definition. As of June 2024, the SBTi listed 5,500 companies with validated targets.

Some *soft-law* frameworks have become *hard-law* instruments and "quasi" regulations

The first voluntary sustainability reporting frameworks were introduced in the early 2000s (the GRI was created in 1998). After the 2008 financial crisis, some stock exchanges started to require CSR reporting from listed companies. They truly became "hard-law" instruments from the mid-2010s with the first reporting regulations. The recent **CSRD** in the EU represents a milestone in that regard – building on previous frameworks from organisations such as CDP, Sustainability Accounting Standards Board and TCFD.

The TCFD is probably the most emblematic example of this trend

As an example, in 2020, the **Financial Conduct Authority in the UK** announced that the premium listed companies on the London Stock Exchange would have to comply with the TCFD disclosure requirements. **Mandatory TCFD-aligned reporting** was extended to more companies in 2022 after COP 26 in Glasgow.

In 2023, 19 jurisdictions, accounting for close to 60% of global GDP in 2022, had final or proposed TCFD-aligned disclosure requirements.

Finally, the TCFD was disbanded at COP 28 in December 2023, to be **fully embedded into the IFRS Sustainability Standard by ISSB.**

Despite the proliferation of initiatives, there is some convergence and an increasing level of integration across frameworks

Multiple frameworks mutually refer to one another. As an example, the **Glasgow Financial Alliance for Net Zero (GFANZ)** developed its Net-zero Transition Plan framework to guide financial institutions' transition strategy. It leveraged existing frameworks and standards: the TCFD, the SBTi, the IEA scenarios, the CDP, the Climate Action 100+ guidance (amongst others).

This growing convergence has crossed borders and even oceans. As an example, the **EU Taxonomy** structure and approach inspired many other jurisdictions beyond European borders. The "Do No Significant Harm" principle set by the EU Taxonomy was later adopted by the **ASEAN Taxonomy for Sustainable Finance**.

Some companies also developed their own **voluntary transition frameworks,** leveraging market standards whilst being better adapted to the specificities of their own business footprint.

Some corporates in **hard-to-abate sectors** developed their **own transition finance frameworks** to articulate their climate ambition with the real transition of their business activities and assets (strategy and commercial development), and their financial strategy (market access, debt financing).

Similarly, some **infrastructure investors** started to develop their own **net zero alignment methodologies,** adapted to the infrastructure asset class but referring to frameworks developed by investor-led initiatives (ie. Institutional Investors Group on Climate Change, GFANZ).

Blunomy has helped different organisations to develop transition frameworks

Técnicas Reunidas is an engineering and construction company, historically focused on the Oil & Gas industry and with the ambition to diversify into energy transition markets (renewable energy, carbon management solutions). In June 2021, it published its Energy Transition Financing Framework to drive its strategy and to access "transition financing instruments" (ie. Use of proceeds). Blunomy worked with Técnicas Reunidas to develop the framework, referring to existing frameworks and regulations and aligning with sectoral best practices. It was validated by a Second-Party Opinion provider.

Infranity is an infrastructure investor and a signatory of the Net Zero Asset Managers Initiative (NZAMI). In May 2024, it published its first target disclosure using a proprietary net zero alignment methodology suited to its infrastructure portfolio, ensuring transparency and accountability. This methodology was co-developed with Blunomy and it refers to the Net Zero Asset Owner Alliance target-setting protocol.

Brief 3

Sustainability frameworks highlight the remaining limits to be addressed

Standard setters must increasingly focus on transition planning

Investors, lenders and regulators expect companies to disclose ambitious and credible shorter-term action plans, beyond mere long-term Net Zero commitments. Some newer frameworks are available to help them discriminate between companies based on the credibility of their transition plans. **Transition planning is becoming the new sustainability strategy frontier.**

CDP – the longstanding carbon data disclosure organisation founded in 2000 – has started to assess the **existence and quality of the disclosure of transition plans** within the corporate reporting under the CDP Climate questionnaires in 2021/22.

The **Transition Plan Taskforce (TPT)** was announced at COP26 based on the conviction that *"effective transition finance is dependent on credible transition plans"*. It has published transition planning guidance for 8 sectors. In June 2024, ISSB announced that it will use TPT materials.

There are also already some signs of progressive integration of transition planning in regulation, but without sufficiently harmonised guidance:

Under the CSRD, European corporations must disclose their strategic approach to transition through proper transition plans, including business dimensions.

In 2022, the **GFANZ** published its "**Net-zero Transition Plan**" guidance for financial institutions. It is a **voluntary framework but** could become **a market standard** or even a **mandatory tool** (following the same evolution as the TCFD).

In Europe, banks will have to draw up **prudential transition plans**, supervised by the **European Central Bank**.

However, **no framework genuinely captures the essence of transition – movement and speed.**

The credibility of a company's forward-looking transition plan should become the focus of standard-setters' attention, as well as the speed of a company's transition, the new way of measuring success.

Many frameworks have started to embrace a broader transition spectrum

Besides climate change, **biodiversity and nature capital have emerged as the next frontier** with increasing attention from multiple stakeholders, particularly investors. However, guidance on the topic is not yet as mature as for climate change mitigation.

The **EU Taxonomy** was one of the first frameworks which articulated different dimensions of the environmental transition in a systemic and sophisticated way.

CDP developed questionnaires to cover other topics beyond climate change in recent years: **Water**, **Forest**, and more recently **Plastics**.

The **Taskforce on Nature-Related Financial Disclosures (TNFD)** has leveraged the experience of its "sister" initiative, the TCFD to develop much more quickly. It was announced in July 2020, and its final recommendations were published in September 2023. It took more than 2 years to the TCFD to publish its first recommendations.

In a world where natural resources are becoming increasingly scarce and where many populations are affected by the impacts of climate and ecological crises, social considerations cannot be put aside. However, **it must be said that social dimensions are – unfortunately – virtually absent from existing frameworks**.

None of these frameworks are perfect, and some limitations should be addressed so they can genuinely help to accelerate the transition

Most frameworks have focused on what companies should stop doing in their respective sectors, which has led them to be **'trapped' in a backward-looking perspective**.

- They **pay too little attention to innovation** and the resources required to invent new solutions and develop new business activities.
- The focus of their analysis is **most often on the speed of closure of traditional activities**, rather than the speed at which companies are reinventing their business model.
- As a result, a **company that takes risks to invent the future is no better rated or valued than one which does not** – although they do not have the same risk profiles, nor the same potential for **long-term and resilient value creation**.

Finally, **several material and critical economic sectors are yet to be comprehensively covered**. Agriculture is likely the best example – SBTi has developed specific guidelines (SBTi Forest Land and Agriculture – SBTi FLAG), but the sector is not yet covered by the EU Taxonomy. This limitation is **an example of how most frameworks still struggle to capture some of the complexity of the transition.**

This backward-looking and highly compartmentalised sectoral perspective must evolve towards a more forward-looking and innovation-driven vision, encouraging and rewarding companies that *"lead from the emerging future"*, to quote the writer Otto Scharmer.

Conclusion

Succeeding in transition needs to go beyond traditional ESG approaches

Climate change adaptation remains less well covered than climate change mitigation. **Following on from the question of transition plans, climate change adaptation strategies could be the next area of action**, spanning the intrinsically-linked themes of climate change and biodiversity.

Other issues – access to water, food security, essential goods and acceptable living conditions – are **becoming increasingly crucial to maintaining cohesion and peace**. To meet these challenges, we need to redirect skills, innovative resources and financing capacities on a very large scale, on behalf of public economic players but also the private sector. To meet these challenges, we will have to make compromises in the **use of scarce resources** (water, land) to redirect them towards **essential needs**.

We need frameworks that, in one way or another, **strive to qualify more and more precisely the degree of a company's contribution to these essential challenges for society**. The Covid pandemic has already shown us that, in times of crisis, priority is given to so-called "essential activities". In a world where climatic, environmental, and social crises will likely become more frequent, we can imagine that such trade-offs will be necessary.

The mobilisation of companies to truly decarbonise and transform their business models is good news. However, we note that **too few companies are questioning the true, essential nature of their activities** and how they might contribute to people's vital needs. Those that do are not "rewarded" by current performance measurement frameworks, even though they are probably more "future-proof" than others, because they address essential and sustainable needs.

Despite some recent encouraging developments, redefining success beyond a purely financial perspective is still needed. In the future, companies could be compared based on their real usefulness to society in a world faced with increasing physical risks and resource scarcity.

At Blunomy, we systematically advise our clients to:

- Take a strategic look at their business portfolio, rather than simple ESG and compliance approaches
- Consider transition as a value creation opportunity, including financial value, and articulate a coherent business vision across strategy, finance and sustainability
- Accelerate and scale up their business diversification efforts to have a more future-proof business model
- Rethink their risk management approach to identify and measure new, unprecedented types of risks (climate, nature), and adapt their business activities accordingly
- Understand existing transition frameworks, leverage those most relevant to their business footprint, and integrate them into their business and financial strategy