



From Carbon Ambition to Delivery

It will take a combination of vision and pragmatism for companies to reach their decarbonization goals.

By Torsten Lichtenau, Mattias C. Karlsson, Cate Hight, and Jenny Davis-Peccoud

At a Glance

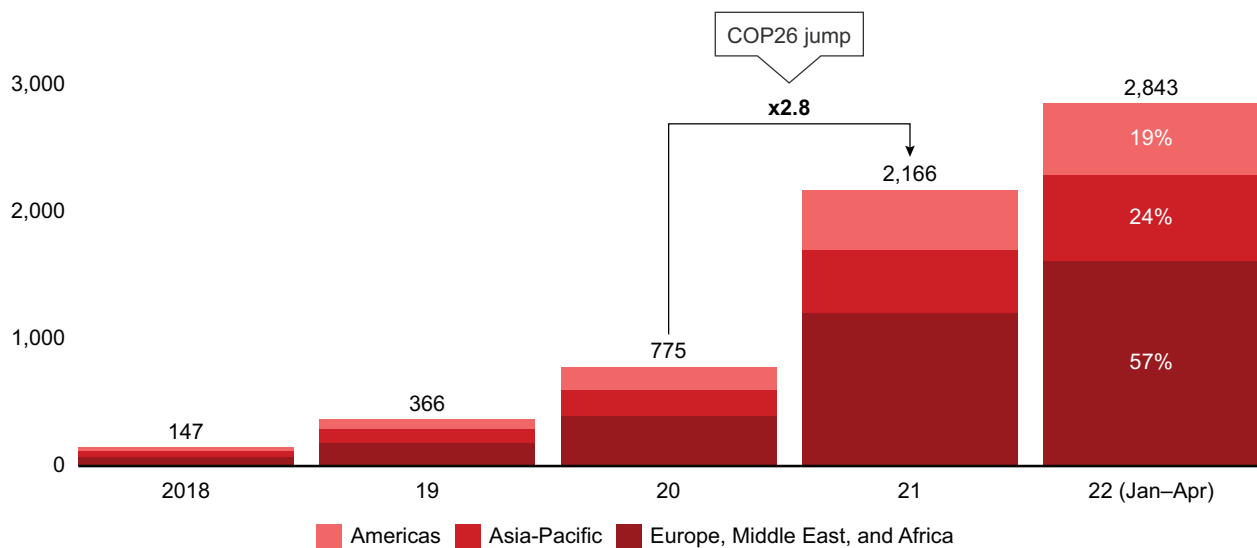
- ▶ Having set aggressive decarbonization targets, companies now face the challenge of executing at pace during a time of unprecedented turbulence.
- ▶ Indicating how difficult it is to turn that ambition into reality, more than 30% of companies missed scope 1 and 2 targets they set for 2020.
- ▶ Companies that make the most progress will stay focused on their visionary net-zero ambition while showing ruthless pragmatism in delivering strategically.

The year 2021 was about ambition setting. The number of companies establishing science-based targets for decarbonization had strongly increased since 2015, but it rose dramatically from 2020 to 2021, in the run-up to COP26, the United Nations Climate Change Conference (see Figure 1).

Now, 2022 and beyond will be about delivering on and monetizing those ambitions. The world will eventually get to net zero—but the critical issue is getting there in time to limit global warming to 1.5 degrees Celsius. The urgency is real: Reaching net zero by 2050 requires halving emissions between 2020 and 2030.

Figure 1: The number of companies pursuing science-based targets has nearly quadrupled since 2020

Number of companies with SBTi commitments or targets set



Sources: CDP; SBTi; Bain analysis

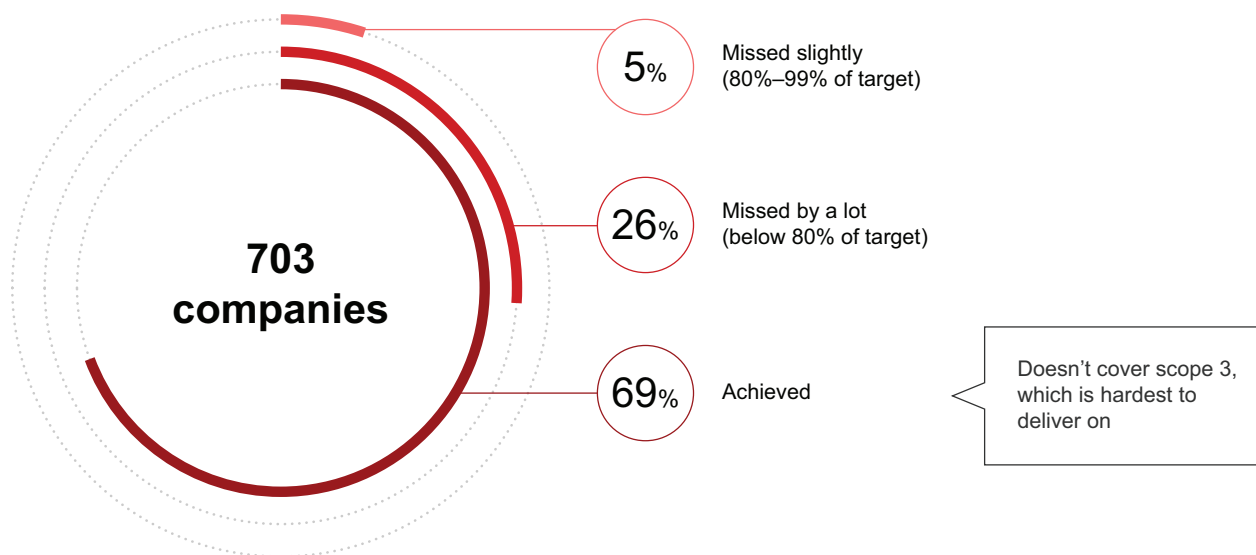
It's not surprising that many CEOs feel overwhelmed as they face the climate challenge. There's no shortage of headlines highlighting the trillions of dollars it will take to green the economy.

It's not surprising that many CEOs feel overwhelmed as they face the climate challenge. There's no shortage of headlines highlighting the trillions of dollars it will take to green the economy and the seemingly endless opportunities to grow customer demand for green products.

Yet the day-to-day work of turning ambition into reality is undeniably challenging. Consider that 31% of companies missed the absolute scope 1 and 2 targets they set for 2020 and reported via the Carbon Disclosure Project—even though these emissions are the most controllable and the first levers to address them tend to be economically attractive (see *Figure 2*).

Figure 2: Achieving emissions targets, even for scope 1 and 2 only, is difficult

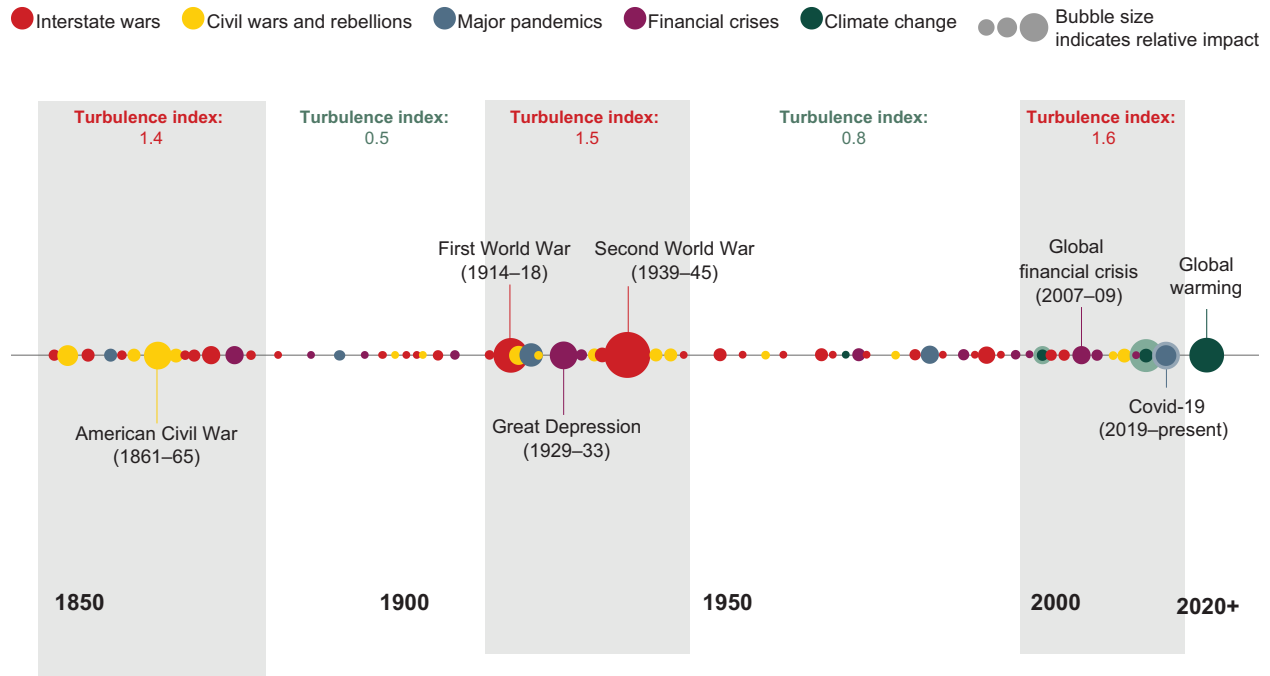
Outcomes for companies with target deadlines in 2020 or before



Sources: CDP; Bain analysis

From Carbon Ambition to Delivery

Figure 3: Even compared with the war-torn first half of the 20th century, we are in a period of significant turbulence



Sources: "Correlates of War Project Trade Data Set Codebook, Version 4.0" by Katherine Barbieri and Omar M.G. Keshk; Bain analysis

Of course, all of this is not happening in a green vacuum. Executives are trying to pursue their decarbonization targets during a period of turbulence that has created historic levels of uncertainty and numerous difficulties (see Figure 3). They are grappling with ways to make an orderly carbon transition amid an unsettling geopolitical atmosphere, chronic supply chain disruptions, and rampant inflation.

To translate ambition into delivery, leaders will need to adopt a mindset that we call *visionary pragmatism*. Organizations that meet their decarbonization goals bring dreamers and doers on the executive team together to get five things right.

Executives are trying to pursue their decarbonization targets during a period of turbulence that has created historic levels of uncertainty and numerous difficulties.

1. Put a premium on strategic adaptability

Companies don't need more climate scenarios but, rather, clarity on the relevant ones. They also need to watch the signposts that will indicate what's coming next, especially regulations and advances in technology.

The best companies will embrace an adaptable approach to strategy. For example, instead of viewing it as a five-year exercise with some additional yearly refreshes, winners proactively drive the delivery agenda (what has been committed and needs to be delivered) and the development agenda (what needs to be advanced). Continuing assessment of signposts guides ongoing and quarterly discussions within the executive team and the board as part of the living strategy.

The best companies will embrace an adaptable approach to strategy. For example, instead of viewing it as a five-year exercise with some additional yearly refreshes, winners proactively drive the delivery agenda (what has been committed and needs to be delivered) and the development agenda (what needs to be advanced).

2. Proactively address investor dissonance

Investors as well as lenders are increasingly assertive and discerning about decarbonization expectations. At the same time, they may not be willing to compromise on near-term returns. There is often dissonance between a company's green ambitions and its growth and return aspirations, and a perception that there will be trade-offs. Many capital markets day events have become longer, but not necessarily clearer.

There is often dissonance between a company's green ambitions and its growth and return aspirations, and a perception that there will be trade-offs. Many capital markets day events have become longer, but not necessarily clearer.

Executives need to strengthen the investor dialogue. That means focusing on strategic clarity, with both concrete near-term plans to achieve decarbonization commitments and pathways to net zero. They should emphasize specific proof points showing that decarbonization is happening and that it contributes to making the business more valuable. Companies need to demonstrate progress in everything from scope 1 and 2 decarbonization to customer collaboration on green products and meaningful portfolio shifts.

3. Decarbonize customer-back

In many sectors, the bulk of emissions happen when customers use the products that companies sell (downstream scope 3 emissions). In addition, what the customer wants deeply impacts embedded emissions generated during production and in the supply chain. Companies that are most successful in their climate transitions start decarbonization with the customer in mind and work backward across offerings, operations, and the supply chain.

In both B2B and B2C situations, visionary pragmatists will know how to promote their green credentials and innovate with customers toward a lower-carbon, circular world. They will ask: What are the customer's own ambitions, and how can the company support them? Decarbonization will have very clear implications for how products are designed and used, as well as for emissions in production and across the value chain.

In both B2B and B2C situations, visionary pragmatists will know how to promote their green credentials and innovate with customers toward a lower-carbon, circular world. They will ask: What are the customer's own ambitions, and how can the company support them? Decarbonization will have very clear implications for how products are designed and used, as well as for emissions in production and across the value chain. Many executives view scope 3 with trepidation, but it can provide the most powerful opportunities.

4. Collaborate where it matters and for results

Carbon transition is a problem far too big to be solved by any company on its own, and the need to engage the wider ecosystem of customers, suppliers, peers, governments, and civil society is increasing. Executives must decide where to collaborate vs. compete, picking the few partnerships that can make a difference. They should forge those partnerships across the value chain, or with peers or NGOs, to reach a critical mass for change.

It's important not to lose precious time on initiatives where there's much talk but little action. Instead, aim to ruthlessly deliver results with a clear intent for the partnership, and with early proof points gained through experimentation.

Executives must decide where to collaborate vs. compete, picking the few partnerships that can make a difference. They should forge those partnerships across the value chain, or with peers or NGOs, to reach a critical mass for change.

5. Create “net heroes” in middle management

Top management usually is fully convinced of the need for aggressive decarbonization, given interactions with investors, the board, and key customers. New recruits often have chosen an employer based on its green credentials. Yet companies may lack committed middle management to get the job done. Too often, middle managers get bogged down when required to deliver key performance indicators for ESG on top of those for revenues, costs, and safety, for example. Sometimes, they're asked to do it without explanation or help in making trade-offs.

How can they become net-zero heroes? The only way to create effective green middle management is to be extremely clear about which decisions to make differently and how to resolve trade-offs.

How can middle managers become net-zero heroes? The only way to create effective green middle management is to be extremely clear about which decisions to make differently and how to resolve trade-offs.

From Carbon Ambition to Delivery

The organization needs to be trained, guided, and aligned to embed their goals as realistic deliverables. As an example, procurement is critical to address scope 3 emissions. Managers who have been trained for years to focus on optimizing cost for given specifications need clear guidance on how to reflect carbon in procurement decisions, next to specs and price (e.g., through internal carbon pricing), plus the tools to pragmatically assess where in the supply chain to push.

The whole organization needs to be upskilled, though not to the same level or the same purpose. That starts with investing to understand who is most impacted and needs the most training, and then rolling out support accordingly.

The urgency of decarbonization and the need to limit global warming to 1.5 degrees are largely undisputed. Most companies raced to establish their targets in time for last year's COP26. Now, as they come face to face with the hard part—delivering on those ambitions and the opportunities available by greening the business—those that combine vision and pragmatism will get there first.

From Carbon Ambition to Delivery

Bold ideas. Bold teams. Extraordinary results.

Bain & Company is a global consultancy that helps the world's most ambitious change makers define the future.

Across 63 offices in 38 countries, we work alongside our clients as one team with a shared ambition to achieve extraordinary results, outperform the competition, and redefine industries. We complement our tailored, integrated expertise with a vibrant ecosystem of digital innovators to deliver better, faster, and more enduring outcomes. Our 10-year commitment to invest more than \$1 billion in pro bono services brings our talent, expertise, and insight to organizations tackling today's urgent challenges in education, racial equity, social justice, economic development, and the environment. We earned a gold rating from EcoVadis, the leading platform for environmental, social, and ethical performance ratings for global supply chains, putting us in the top 2% of all companies. Since our founding in 1973, we have measured our success by the success of our clients, and we proudly maintain the highest level of client advocacy in the industry.



For more information, visit www.bain.com

AMSTERDAM • ATLANTA • AUSTIN • BANGKOK • BEIJING • BENGALURU • BERLIN • BOGOTÁ • BOSTON • BRUSSELS • BUENOS AIRES • CHICAGO • COPENHAGEN
DALLAS • DENVER • DOHA • DUBAI • DÜSSELDORF • FRANKFURT • HELSINKI • HONG KONG • HOUSTON • ISTANBUL • JAKARTA • JOHANNESBURG • KUALA LUMPUR
KYIV • LAGOS • LONDON • LOS ANGELES • MADRID • MANILA • MELBOURNE • MEXICO CITY • MILAN • MINNEAPOLIS • MONTERREY • MOSCOW • MUMBAI
MUNICH • NEW DELHI • NEW YORK • OSLO • PALO ALTO • PARIS • PERTH • RIO DE JANEIRO • RIYADH • ROME • SAN FRANCISCO • SANTIAGO • SÃO PAULO
SEATTLE • SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY • TOKYO • TORONTO • WARSAW • WASHINGTON, DC • ZURICH