The transparency edge

How measurement, disclosure and assurance deliver added value and strengthen corporate sustainability

SmurfitKappa.com

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Executive summary:

The transparency edge

In a world where sustainability is increasingly business-critical, companies must be both meticulous and ambitious in measuring, disclosing and assuring their efforts.

Businesses face rising consumer demands, political pressure, new regulatory requirements and evolving investor expectations. There is only one way to respond: with clarity, purpose and action.

If they do, they will strengthen corporate sustainability and benefit from greater trust among their customers and other stakeholders. Transparency gives companies an edge – opening up new opportunities for innovation, growth and the creation of lasting value.

Our new research shows:

50%

of businesses claim to have tangible and ambitious plans to achieve net zero by 2050

61%

say sustainability is changing the way they measure financial performance

63%

have complete transparency on how and why sustainability decisions are made

So, how are businesses using the power of transparency to strengthen corporate sustainability? And what impact is transparency having on how they are perceived by stakeholders?

- A small group of 'Sustainability Leaders' – just one in nine of our respondents – claim to have robust sustainability strategies in place. But a majority of businesses have introduced strategies in the past two years or are developing them.
- The Sustainability Leaders (see Identifying the Sustainability Leaders) are ahead on defining the actions they need to take to move towards net zero and on creating transparency around their actions on emissions.
- The top barriers to becoming more credible on sustainability are inconsistent data access and a lack of supply-chain transparency.
- Businesses must assure customers, investors and supply-chain partners that their data is robust in order to build confidence among these key stakeholders.

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Today, our customers, consumers and stakeholders demand to know what companies are doing. It helps them make final decisions about what products to buy.

Silvia Dávila
President of Latin America, Danone, and Co-Chair for The Consumer Goods Forum in Latin America

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The purpose is to leave the planet in a better shape than it's currently in. Now that's being devolved into target setting, roadmaps, ambitions and standards that are helpful in monitoring progress. But if we lose sight of what we're actually trying to do here, then there's no point.

Ken Bowles
Chief Financial Officer, Smurfit Kappa

About the research

The data in this report is based on a survey commissioned by Smurfit Kappa and conducted by FT Longitude between **October and December 2022**.

It builds on our 2020 report, *Sustainability reshapes the business landscape for good*, with new questions and an expanded sample.

Respondents included **440** senior and executive business leaders from retail and consumer products industries, including fast-moving consumer goods (FMCG) and e-commerce. All respondents have oversight of and/or responsibility for their organisation's sustainability initiatives, and **25% hold C-suite roles**.

They were drawn from **11** major economies: Colombia, France, Germany, Ireland, Italy, Mexico, the Netherlands, Poland, Spain, the UK and the US. This enables us to analyse regional differences in how businesses are approaching transparency on sustainability – for instance, between Europe and the Americas.

In addition to the quantitative research, FT Longitude carried out a **series of in-depth interviews** with:

Arco Berkenbosch
Vice President of Innovation and Development, Smurfit Kappa

Simon Boas Hoffmeyer
Senior Director, Group Sustainability & ESG, Carlsberg Group

Ken Bowles
Chief Financial Officer, Smurfit Kappa

Amanda Calder-McLaren
Senior Director, Brand and Communications, The North Face

Claudia Campillo Velásquez
VP Corporate Affairs and General Secretary, Grupo Éxito

Cathrine de Coninck-Lopez
Global Head of ESG, Invesco

Silvia Dávila
President of Latin America, Danone, and Co-Chair for The Consumer Goods Forum in Latin America

Robert Eccles
Visiting Professor of Management Practice, Saïd Business School, University of Oxford

Nina Hajikhanian
Director, DTC EMEA, Patagonia

Tim Orton
Chief Investment Officer, Aegon UK

Garrett Quinn
Chief Sustainability Officer, Smurfit Kappa

Adrian Sen
Packaging Sustainability Innovation Manager, Colgate-Palmolive

Mads Twomey-Madsen
VP Corporate Communications & Sustainability, Pandora

Section 1

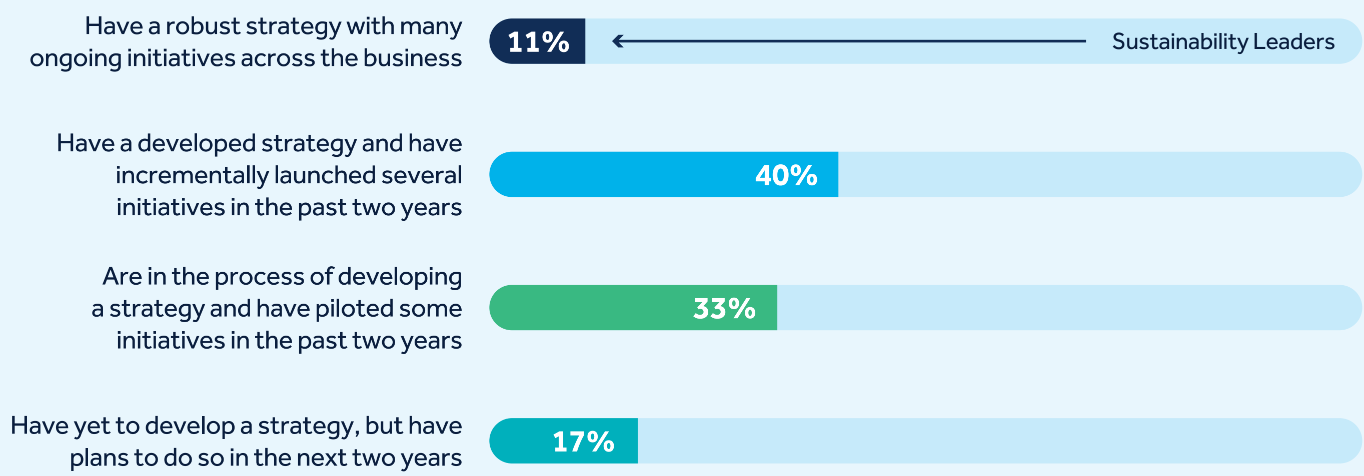
Setting the direction

The scale, complexity and urgency of the challenges facing humanity today demand that businesses use all their ingenuity and creativity to come up with solutions.

They need to combine ambitious visions for the future with rapid action in the short term, supported by governance arrangements that define how companies will deliver improvements over time.

But our survey shows that only a few businesses – 11% – have a robust sustainability strategy in place, with multiple initiatives under way. We call this group the 'Sustainability Leaders'.

Which of the following best describes your organisation's sustainability strategy?



Note: due to rounding, data does not always add up to 100%

Identifying the Sustainability Leaders

To develop an effective sustainability strategy, businesses need to pair clear goals with accurate and transparent measurement and reporting of the actions they take and the progress they make.

Without universal reporting frameworks or standards, and the consequent potential for 'greenwashing' and misleading claims, transparency is crucial to building confidence among consumers, investors and other stakeholders.

The survey results show that the Sustainability Leaders – those with a robust sustainability strategy in place – are:

1. Setting the direction
Ensuring that the company's sustainability actions are aligned with its ambitions

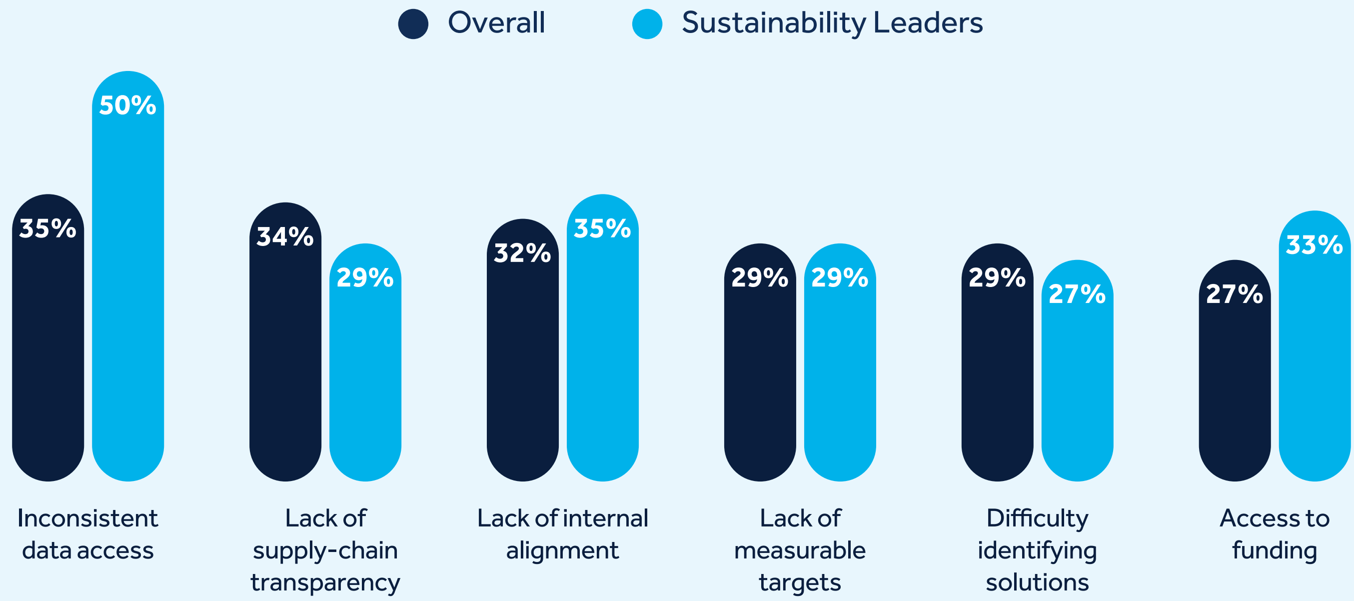
2. Creating clarity
Defining and measuring their progress on net-zero initiatives

3. Building trust
Communicating effectively to build trust in products and services

4. Measuring performance
Assuring their sustainability performance

This is the transparency edge. The Sustainability Leaders have it, and are showing the way ahead for businesses in every sector.

What are the biggest barriers to improving credibility of your organisation's sustainability initiatives?



Note: respondents were asked to select up to three responses

Overcoming barriers to credibility

The survey shows that many businesses face significant barriers to strengthening their corporate sustainability. The most pervasive ones relate to data and supply-chain transparency.

At Smurfit Kappa, we have been gathering sustainability-related data for 14 years, and this has been independently assured since 2009. Over that time, we have developed a detailed picture of our business and our supply chains. "We now have a database of 90,000 supply chains, where we know precisely the average transport distance, the carbon footprint, the load efficiency and so on," says Arco Berkenbosch, Vice President of Innovation and Development.

This visibility enables Smurfit Kappa to manage its own impacts and support its partners to do the same. "You can help your customer and your supply chain to define feasible and easy first steps, based on what has been proven to work in other parts of the value chain," says Berkenbosch. "That's just one example of the power of big data."

Pandora, meanwhile, is building on its existing reporting processes. "Suppliers are used to providing information such as the price of the product," explains Mads Twomey-Madsen, VP Corporate Communications & Sustainability at the Danish jewellery manufacturer. "Now, in that same data flow, we need credible, verified information about product climate impact."

New metrics

The survey shows most businesses are already beginning to change the way they measure business value. Well over half (61%) say that sustainability is changing how they measure financial performance.

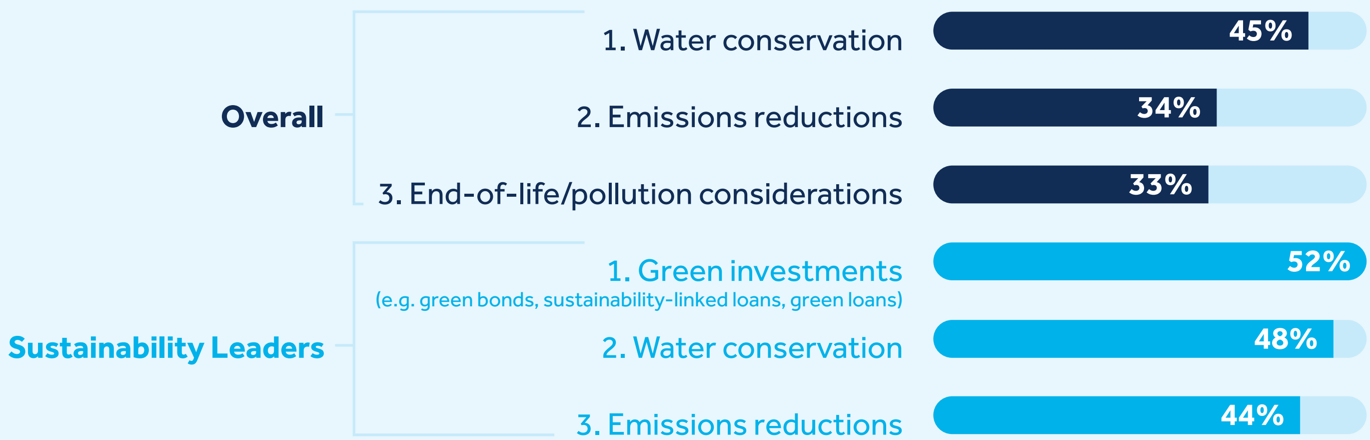
Many companies have started to build sustainability into leaders' performance assessments and incentives. PwC research has found that 58% of FTSE 100 firms now link executive remuneration to ESG targets.

Simon Boas Hoffmeyer, Senior Director, Group Sustainability & ESG at Carlsberg Group, explains his company's approach: "As a rule of thumb, those who are working on our ESG programme, Together Towards ZERO and Beyond, should be remunerated against it."

This principle can be applied company-wide. For instance, a plant manager's remuneration could be linked to targets on carbon emissions and water usage. For Carlsberg's executive board, 20% of the short-term incentive (STI) package was linked to ESG-related targets in 2022, and the company plans to extend this to long-term incentive packages.

> It's not, 'Let's go green and forget about everything else.' It's, 'Let's continue to be green, and let's make sure that is against a backdrop of strong financial returns and strong delivery.'
>
> **Garrett Quinn**
> Chief Sustainability Officer,
> Smurfit Kappa

The sustainability metrics that are most frequently linked to executive compensation



How businesses are evaluating their sustainability performance

61%
of businesses say sustainability is changing the way they measure financial performance

49%
are committed to achieving net zero, but say that making a business case for it is a major challenge

30%
are not able to connect sustainability performance to financial outcomes – up from 22% in 2020

Europe and the Americas: Moving in the same direction?

The EU has often been at the forefront of policy initiatives to encourage sustainability. Its Green Deal commits to net-zero carbon emissions by 2050, with 55% reductions by 2030. And in November 2022 it approved the Corporate Sustainability Reporting Directive (CSRD), which creates new requirements for large businesses to report on sustainability from 2025.

North American policymakers are typically seen as less proactive, but that may be changing. The Inflation Reduction Act (IRA) of August 2022 is a significant investment in combating climate change and is prompting US businesses to rethink the way they approach sustainability. It could also have a knock-on effect on the US's neighbours such as Mexico, which is another slow mover on sustainability.

Other countries in the Americas are also beginning to mobilise, for instance in the development of sustainable finance taxonomies, which are classification tools that enable the identification of economic activities that contribute to specific environmental targets. In 2022, for example, Colombia became the first country in the Western hemisphere to adopt a national green taxonomy, part of a policy approach that includes tough national net-zero targets for 2030 and 2050. A working group on sustainable finance taxonomies for Latin America and the Caribbean has also been launched, and taxonomies are also in development in Mexico, the Dominican Republic and Peru.

Section 2

Creating clarity on net zero

There is no more urgent global challenge than reaching net zero, but the complexity of the problem is daunting.

Our survey shows that Sustainability Leaders are far more likely to have implemented clear and credible plans to reach net zero by 2050, and to be measuring their Scope 1, 2 and 3 emissions.

79% of Sustainability Leaders have tangible and ambitious plans to achieve net zero by 2050, compared with **only half of businesses overall**

67% of Sustainability Leaders have set measurable sustainability goals based on industry-specific benchmarks, compared with **51% of businesses overall**

An important challenge is Scope 3 emissions, which are the emissions for which a business is indirectly responsible, up and down the value chain. Most businesses say they have limited measurement capabilities, which reflects the challenge of accessing data that is outside of the organisation and from other businesses involved in the value chain.

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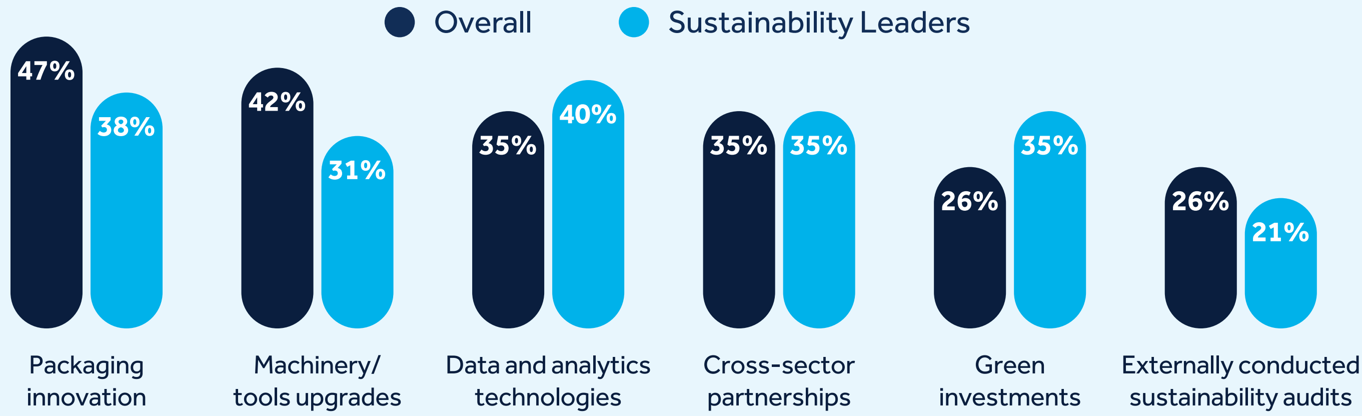
> Now, the talk of the town is Scope 3 – the validity of data, the depth of data, the depth of change in the value chain, and also whether you are able to consistently track your actions in the value chain to actual reductions.

Simon Boas Hoffmeyer
Senior Director, Group Sustainability & ESG,
Carlsberg Group

Which of the following investments is your organisation prioritising in order to meet its net-zero targets?



Note: respondents were asked to select up to three responses

Hitting targets using data and innovation

For Sustainability Leaders, a solid data foundation and packaging innovation are the top ways to meet net-zero targets.

"Every brand owner is exploring switching from plastic to paper," says Adrian Sen, Packaging Sustainability Innovation Manager at Colgate-Palmolive. There are challenges, particularly for liquid products, and cutting plastics may ultimately require trade-offs. "Maybe with new materials – natural polymers and so on – the product's shelf life would be reduced, and we would accept that, for the bigger cause," says Sen.

Firms need to be responsive to the evolving regulatory landscape. "One big driver in Europe is regulation – the EU's Green Deal and Packaging and Packaging Waste Directive," says Sen. In general, he says, Europe is "quite focused on circularity, recycling and re-using whatever we put on the market." In the US, in contrast, there is greater emphasis on composting.

Packaging innovation is a major priority for Colgate-Palmolive, whose sustainability targets for 2025 include:

Reducing its use of virgin plastic by a third from 2019 levels

Cutting unnecessary packaging

Making all packaging recyclable, re-usable or compostable

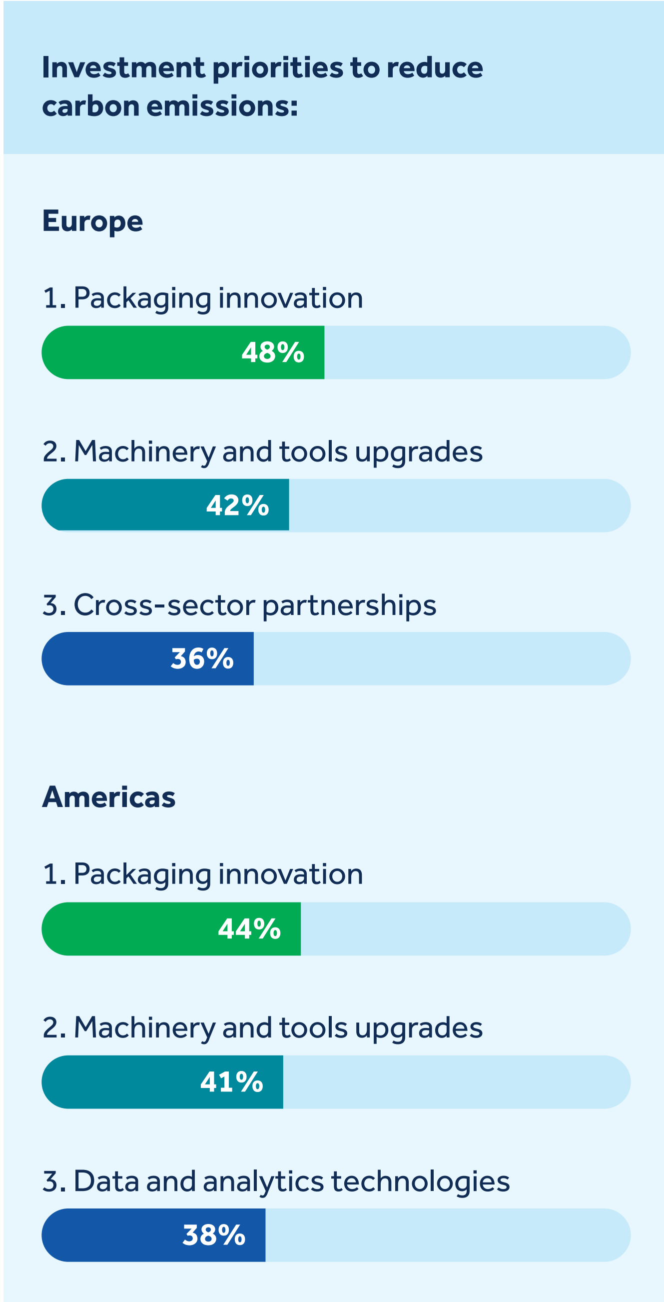
Using at least 25% recycled plastic

Innovation in the value chain

Packaging innovation is also a priority for food multinational Danone. This includes packaging designed for circularity – 82% of its packaging in Mexico is now recyclable, including 69% on dairy products and 100% for its water brand, Bonafont. But circularity also means re-use, and 70% of Bonafont is now sold in returnable jugs. "We are working on alternative material options for other plastics," says Silvia Dávila, Danone's President of Latin America.

Working with partners to boost recycling rates is also a priority. "The recycling value chain in Latin America is quite dependent on the informal sector," says Dávila. "There is an important need to integrate and support these organisations into cooperatives and structure their activities to strengthen the collection of recyclables and give them market access."

Meanwhile Carlsberg's access to long-term historical data allows it to generate high-quality insights at short notice. "Transparency starts with data," says Simon Boas Hoffmeyer. "We have an online tool that we use to collect ESG data from across the company, and one of the things that we decided very early on was to rely as much as possible on primary data."



Section 3

Building trust in products and services

As businesses evolve to become more sustainable, they need to take stakeholders with them – suppliers and customers, up and down the value chain.

To do this, there needs to be both trust in the business strategy and confidence in the sustainability of new products and services.

"You set out to partner with the companies in your value chain and make sure that everybody moves in the same direction," says Pandora's Mads Twomey-Madsen. For Pandora, engaging supply-chain partners in this way is central to its target of reducing emissions across the value chain by 50% by 2030.

On this point Danone's Silvia Dávila agrees: "No single company can solve the scale of the sustainability challenges we face on its own, so businesses must be prepared to join others at the table if they are to survive."

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You do what you say, and you say what you do. And you get the trust of the customer because they can see you.

Nina Hajikhanian
Director, DTC EMEA,
Patagonia

Communicating with clarity

Our survey shows that businesses recognise how important it is for communication around sustainability to be both sophisticated and clear.

29%

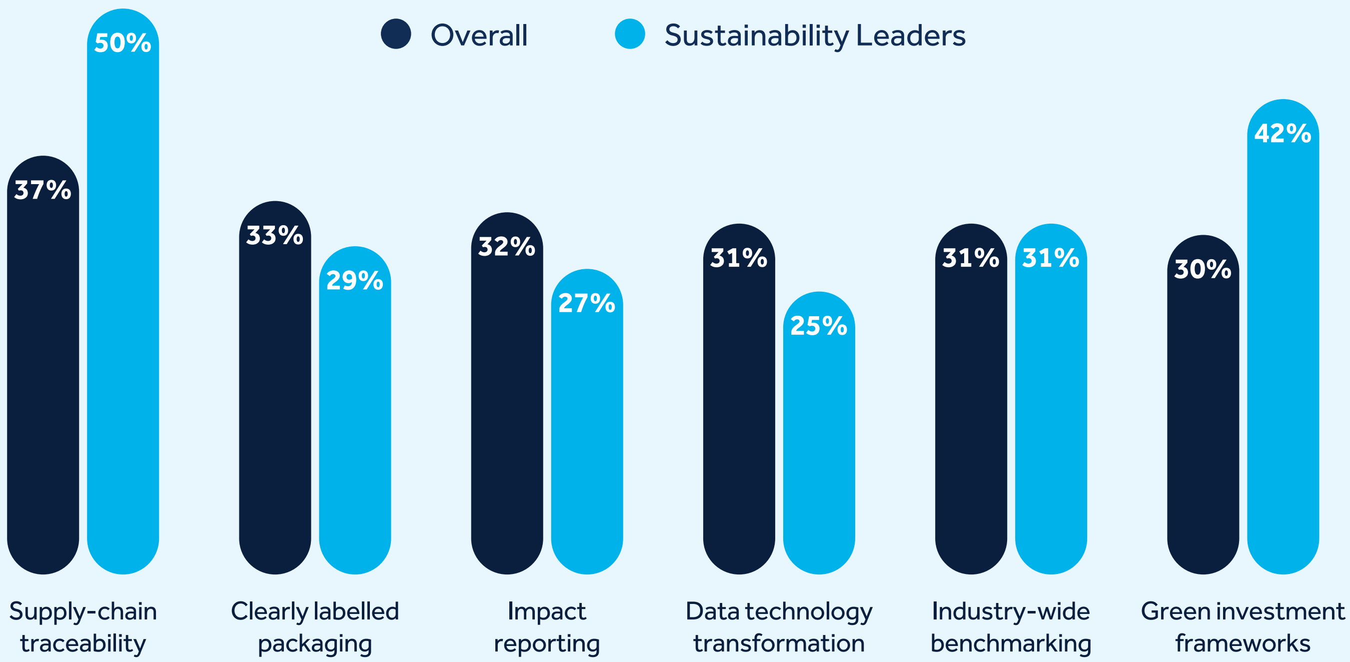
say their company's actions rarely align with the sustainability ambitions they communicate to stakeholders

61%

say they need to be more informative in how they communicate the sustainability of their practices and products

> We always put actions before communication. You always need to know something before you say something. And that goes for anything we do – not just sustainability.
>
> **Mads Twomey-Madsen**
> VP Corporate Communications and Sustainability, Pandora

Which of the following initiatives should your organisation prioritise in order to improve transparency in the supply chain?



Note: respondents were asked to select up to three responses

Ensuring consumers are informed

Our survey respondents believe that effective communication of sustainability information to consumers should include both impact reporting and clear labelling. The latter should include information about sourcing, resource use and responsible disposal or re-use.

For Claudia Campillo Velásquez, VP Corporate Affairs and General Secretary of South American retail firm Grupo Éxito, communication with customers is crucial. “We have to be very vocal in all the things that we are doing,” she says. In addition to formal reporting, that means bringing sustainability to life on social media and in stores. “It’s not enough just to put it on our website. We have to keep informing our stakeholders what we are doing across our sustainability pillars.”

Most effective ways to increase transparency among consumers:

1. Impact reporting

47%

2. Clearly labelled packaging

43%

3. Annual sustainability reporting

40%

4. External marketing and communications

36%

5. Science-based targets and benchmarks

34%

6. Promotion of cross-sector partnerships

31%

"

For us, it's important to hold ourselves accountable: how do we make it possible for the consumer to know where to recycle that product, in order to be more responsible?

Nina Hajikhanian
Director, DTC EMEA,
Patagonia

Section 4

Measuring performance and informing decisions

When there are competing methodologies and standards, it can be difficult for stakeholders to work out whether companies' claims are legitimate.

Yet it is increasingly important for a range of stakeholders, including consumers, to make informed decisions.

According to one 2022 study, more than half of consumers globally say that the Covid-19 pandemic motivated them to adopt a more sustainable lifestyle; nearly 70% are worried about climate change. And they expect brands to demonstrate similar concerns and responses. They are likely to reward businesses that can robustly show the impact of their actions to become more sustainable – and as standards of transparency improve, businesses found to be 'greenwashing' are likely to be punished for it.

Sixty-three percent of respondents – and 73% of Sustainability Leaders – say they provide complete transparency about their sustainability decisions, but that leaves significant room for improvement.

67% of Americas and **61% of Europe** respondents say there is complete transparency on how and why sustainability decisions are made

33% of Americas and **27% of Europe** respondents say their company is measuring ROI from sustainability investments

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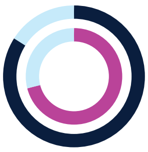
The ever-growing pressure for greener, more sustainable practices is undeniable. And that's only a good thing because it pushes corporations to make the right choices. People power is ultimately the driver of commerce.

Amanda Calder-McLaren
Senior Director, Brand and Communications,
The North Face

Assuring sustainability performance

Our survey also shows that Sustainability Leaders are more likely to have developed assurance models and reporting capabilities to demonstrate progress towards sustainability goals:



84% of Sustainability Leaders say their organisation's sustainability reporting is assured, compared with **71% of companies overall**

Smurfit Kappa's Ken Bowles says that regulation will play a critical role in "levelling the playing field" for businesses as they report the results of their actions to cut emissions. Recasting financial reporting means understanding what creates true long-term value, he says, including non-financial benefits: "You're trying to build a business case that says, 'I have a high-growth project that delivers volume growth and a 20% return on capital – or a project that reduces carbon by 100,000 tonnes a year.' We have to be able to educate people about the non-financial benefits and the financial benefits in a similar way."

> When the tide goes out, a lot of companies are going to be found out, because they have no assurance model – they've said what they think is the right thing to say, without backing it up.

Ken Bowles
Chief Financial Officer,
Smurfit Kappa

Understanding investors’ interests

One of the key drivers behind efforts to improve assured reporting has been growing interest from investors amid recognition of the opportunities associated with sustainable business – and the likely costs to businesses that do not manage their impacts.

“As a financial-services organisation, we’ve got a responsibility, but also an opportunity, to influence across our value chain,” says Tim Orton, Chief Investment Officer of Aegon UK.

That influence is particularly significant when it comes to net zero, and Orton is clear about the business case. “We see it as a prerequisite,” he says. “We almost take it as a given that we have to aim for net zero – we will seek to do what we need to do to support progress towards it.”

For investors, says Orton, data is critical to understand how the transition might impact different companies and what approach each is taking. The quality of data is currently patchy – but efforts by governments and regulators to set standards for company disclosures are to be welcomed. “As that embeds and is implemented, it will help us all,” he says. “Because we’ll get more complete data sets and more accurate information on things like carbon emissions to use as an input to our decision-making.”

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> The science on climate change is there for all to see – as are the financial impacts and the social impacts.
>
> **Tim Orton**
> Chief Investment Officer,
> Aegon UK

Getting behind the right frameworks

One of the consistent themes in our research is the appetite for clarity of sustainability metrics and reporting.

Garrett Quinn, Chief Sustainability Officer at Smurfit Kappa, says the Science-Based Target Initiative (SBTi) is key, because of its rigour. "Anybody who's SBTi-approved is most definitely on the right track," he says.

SBTi-aligned businesses, including Smurfit Kappa, are likely to seek alignment from their suppliers too. "We haven't moved to a position where we're mandating SBTi, but we're starting to talk about it," says Quinn. "We're saying, 'This is important to us' – and, in time, we will be looking for our significant suppliers to sign up."

Some commentators believe the market will coalesce around commonly accepted reporting standards. But this is not a realistic attitude, warns Robert Eccles, Visiting Professor of Management Practice at the University of Oxford's Saïd Business School. He points out that the establishment of financial reporting standards was a "long and winding road". "We only got standards for financial reporting in the US when the SEC [the US Securities and Exchange Commission] was formed," he says. "It needs to be done by a government body."

Even when there are standards, there will always be some inconsistency between different regulatory regimes, says Eccles: "People need to be realistic about how long it's going to take and how imperfect it's always going to be."

Last word

As businesses grapple with the transformative change needed, they have four key areas to focus on:

1

Think systems

To create a more sustainable economy, businesses need to consider every aspect of their operations and implement systemic change throughout the value chain to manage both direct and indirect impacts. This requires collective ambition that resets the behaviours and expectations of suppliers and consumers.

2

Be ambitious and action-oriented

To achieve net zero by 2050 (or sooner), businesses need to combine genuine ambition and purpose with action.

As they seek transparency and credibility by adopting new measurement tools, aligning with regulatory and reporting requirements and re-engineering production and packaging processes, companies could easily be overwhelmed by process and lose sight of the end goal. A granular attention to detail is vital, but it must not come at the cost of taking action.

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Every step forward, even if it's small, is a good step.

Arco Berkenbosch
VP of Innovation and Development, Smurfit Kappa

3

Be honest – for better or worse

The creation of sustainable business models will not be a smooth, linear process. Businesses may miss some targets and find that some promising solutions ultimately fail to deliver.

Hiding from these challenges is not an option. Slow progress may frustrate consumers and investors, but they will reward honesty and transparency – and punish deception or vagueness. Organisations need a rock-solid commitment to transparency in order to maintain trust and credibility.

4

Make a start today

For companies with robust sustainability strategies, the road to 2030 will be paved with well-defined, practical initiatives. The roads beyond 2030 may be less clear, but uncertainty should not stop businesses from starting to plan.

Their first moves should be accelerating innovation and exploring longer-term solutions. Not everything will work, but putting in place processes to develop transformative methods and technologies will pay back over time.

The most important thing businesses can do is get moving.

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We work with the belief that the key thing is to start moving – because if we don't start moving, nothing's going to happen.

Mads Twomey-Madsen
VP Corporate Communications & Sustainability, Pandora

Glossary

Transparency

The extent to which a company's processes, products and/or services are observable by outsiders and open to scrutiny.

Impact reporting

Communicating the difference made by a company's actions to improve or change.

Scope 1 emissions

Emissions from sources that a company owns and controls directly (e.g. onsite building energy use, company vehicle fuel).

Scope 2 emissions

Emissions that a company causes indirectly when the energy it uses is produced (e.g. purchased electricity).

Scope 3 emissions

All indirect emissions that occur in the value chain of a company, either upstream or downstream (e.g. employee commuting, investments, waste generated in operations).

Smurfit Kappa