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Analytics

Sustainability Analytics - How to Define Sustainability Metrics

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Introduction

There are five key communities with an interest in sustainability; consumers, firms, investors, institutions, and governments. Consumer attitudes are hardening, firms and investors are scrambling to get measures in place, intergovernmental bodies are taking initiatives, politicians are trying to reach a consensus. The efforts of these communities are commendable. But the analytics for sustainability are in danger of letting them down. Few of the metrics stand up to scrutiny. Firms need to critically review the metrics that put forward to assess their performance, they need to be ready to influence and lobby to get metrics that are valid. Sustainability issues will inevitably affect firms - their funding, tariffs, taxes, brands, and access to markets.

Sustainability Targets

It looks like we will have a climate disaster on our hands. The world's sustainability and global warming targets will be missed. We will see increases in the frequency of catastrophic events. For some people in some locations, it is already too late. With the disaster will come unpredictable political fallout. The groundswell of popular support for the sustainability agenda suggests people's priorities have shifted.

Sustainability Metrics

Analytics and metrics are playing a role. Governments use them to direct incentives such as funding, tax breaks and other forms of state support and subsidy for innovation in sustainability. Investors and lenders use them to move money out of industries, firms, products and brands that may be seen to be part of the problem, so increasing their costs of capital and reducing their returns.

Sustainability Data

There is more and more data available to investors, lenders and large and small firms alike. Governments and research institutions provide relevant data and metrics as open data, freely available. One aim is to encourage firms compete to provide innovative products and services that will be part of the sustainability revolution.

Sustainability Analytics and Business Models

The European Union is pursuing initiatives aimed at accelerating this evolution of metrics in order to support regulatory interventions. The European Central Bank will use them to direct its market interventions to support the European Green agenda. Trade negotiators will use tariffs to target imports from firms and countries that are seen not to be supporting the sustainability agenda. Firms may find that regulatory changes will undermine their business models with higher taxes and tariffs, and even stop them accessing certain markets.

Some firms are actively trying to transform their energy mix and their business models. They hold a conviction that a business model based on sustainable growth is a guarantee of quality and performance that contributes to the resilience of their brands. Certain consumer segments, while perhaps not willing to pay premiums for brands that support the sustainability agenda are beginning to shun brands and products that do not.

Sustainability Analytics and Dashboards

Not to include sustainability analytics within your wider analytics agenda would seem to be perverse. That said, metrics are still work in progress. Providers of ESG ratings (Environmental Social and Governance) to investors can't get their ratings to align. Regulators have not yet standardised metrics across jurisdictions.

All firms need to invest some time in developing their use of metrics on sustainability issues. It will help firms identify investments and assets that risk being "stranded" by regulatory changes. It will help firms to attract funding and subsidy that will accelerate their growth. It will help firms to communicate their sustainability goals and progress to their own employees and customers. Firms would do well to include sustainability metrics into their performance dashboards - demonstrating a commitment to the "sustainability revolution" to all stakeholders.

Five Sustainability Issues and Innovation in Sustainability Metrics

There is still room for innovation in metrics, but the five sustainability activities to be addressed by firms are very clear:

climate change mitigation and adaptation
sustainable use and protection of water and marine resources
transition to a circular economy, including waste prevention and increasing the uptake of secondary raw materials
pollution prevention and control
protection and restoration of biodiversity and ecosystems

Conclusion

Assessing and measuring a firm's contribution to addressing all these dimensions of sustainability will become more urgent as the impacts of the current missed climate targets become clearer to everyone, not least consumers.