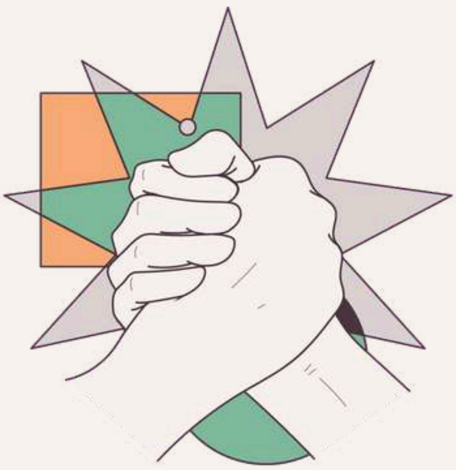
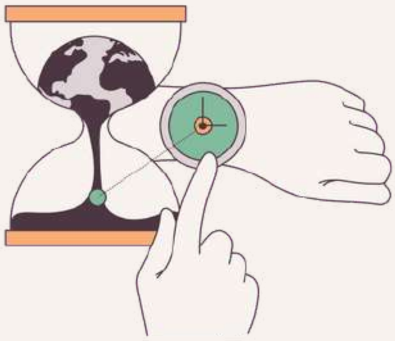
WHITE PAPER

The Sustainability Gap: Why Australia's Leading Companies Aren't Leading at All

Strategically reviewing how big business' failings present an untapped opportunity for SMEs



The Importance of Sustainability



When you're facing labour/skills shortages, supply issues, time constraints and have a focus on filling your pipeline, keeping staff and customers happy, and managing economic pressures, there's not that much room for anything else.

So, with 'sustainability' and 'ESG' cropping up everywhere you look, and customers, tenders and grants now requiring sustainability information, it's getting harder to ignore.

While it's not a top priority, if you were looking to the majority of the country's largest companies, you could be forgiven for thinking that it's just another compliance task or a marketing play.

Sustainability is, by definition, about meeting the needs of the present without compromising the future. Pragmatically, it's also the degree to which a process or enterprise is able to be maintained or continued. It's more important than ever, because the systems that we've built our businesses on are under grave threat. It's those organisations that reframe sustainability in this way that will build true resilience.

Why this analysis?

We set out with the intention to review the sustainability reports of 10 prominent Australian companies in order to share and interpret the learning and takeaways for SMEs.

What we ended up with, however, is a slightly more jaded view of the state of sustainability in Australia. Instead we've summarised the findings of our analysis in this paper as a call to action for SMEs to lead where big business is lagging - and to take bold action that is necessary not only for strategic resilience and competitive advantage, but for a liveable and thriving future.

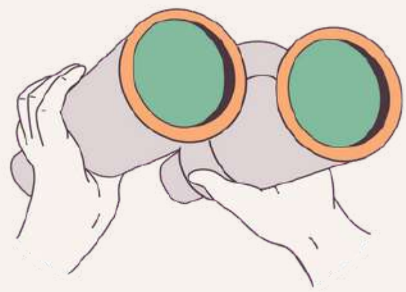
Sustainability: Not Just a Buzzword (and Definitely Not Going Anywhere)

To some, sustainability is a new concept to grapple with and potentially falls to the bottom of the priority list. It's worth considering that this challenge is not going away though. Mandatory reporting is coming for larger businesses from January 2025. Many Australian companies are ahead of the game and are already reporting. With this in mind, we reviewed a handful of existing reports to understand what's working and not working, and to identify learnings and opportunities for SMEs.

We chose ten very recognisable Australian businesses across a variety of sectors. To understand where they stood on sustainability we reviewed their sustainability statements and pages, primarily focusing on sustainability reporting. All except two of the companies had publicly-available sustainability reports. Some required more digging to find than others, were summarised on websites or found within shareholder reports, but were still available.

The two companies which don't have publicly available sustainability reports (that we could find) are the two smallest. The lack of reporting doesn't reflect a complete disregard for sustainability. Both make mention of ESG plans and highlight distinct sustainability initiatives. But in a time of rife greenwashing, transparency matters.

As many SMEs may look to larger company's reports as an example of good reporting, this white paper looks to identify the deficits to help SMEs avoid making the same mistakes.



The SME Opportunity:
Size Doesn't Matter

Mandatory reporting once you hit a certain size shouldn't be the trigger for taking sustainability seriously in your business. You already have an impact. Understanding that impact early on and taking any action you can to address it is preferable to waiting for the 'big hand' of governments to enforce change. At least that way you maintain control.

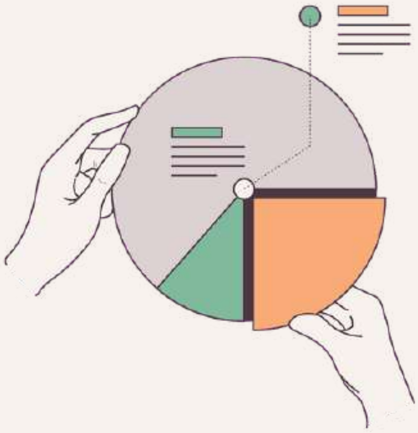
Finding out you have negative impacts shouldn't be a deterrent either. Consider these as opportunities to improve just like any other metric in your business.

By setting targets and planning to meet or better them you can only improve. Making that public adds a level of accountability (and is good governance) that will strengthen your resolve and stop the objectives from slipping to the back-burner when things get busy or difficult.

Our Methodology

Focusing on the eight companies that did produce reports, we reviewed their 2023 reports in lieu of all of them releasing updated reports for 2024.

Particular focus was placed on their impact assessment and improvement targets and how they were tracking against them. How they were communicating their progress was also assessed, looking to understand if greenwashing was a risk.



Frameworks

Sustainability reports focus on Environmental, Social and Governance. All of the reports we analysed adhered to at least one of the global frameworks for ESG reporting. All used the Global Reporting Initiative (GRI) standards and some supplemented with Sustainability Accounting Standards Board (SASB) (which is now part of the International Financial Reporting Standards (IFRS) Foundation), and Science Based Targets Initiative (SBTi) frameworks.

However, this doesn't mean that the reports were identical, meaning we were conscious of where comparisons could be drawn, and where they couldn't (i.e. apples with apples).

The GRI reporting standard only requires that specific reporting is completed and an index highlights where in the report the pertinent information is. As a result the most of the reports are bold, bright, boastful and very clearly branded.

Carbon Tunnel Vision

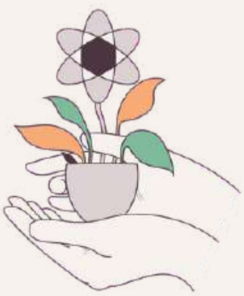
Environmental reporting focuses on a business's impacts on the environment including emissions, biodiversity, water, waste and their interactions. The biggest focus for all reporting businesses we analysed was emissions.

There is a great focus on Scope 1 & 2 among the reports, but little regard for Scope 3.

When it comes to Scope 3, seven out of the eight reporting businesses acknowledge that it's their biggest source of emissions. Some recognise that Scope 3 contributes >90% of their emissions.

Rather than prioritising Scope 3 as their largest emissions contribution, 6 out of those 7 have separate, reduced targets in comparison to scope 1 & 2 or don't have targets at all. Across the board there is acknowledgment of the complexity of Scope 3 measurement and reduction.

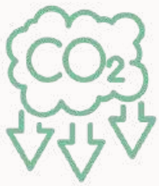
Waste is another point of attention for many of the reporting companies. They're targeting reductions and some are boasting circular initiatives. Most of these initiatives are redirecting food waste to food banks or livestock feed. This could be perceived as being circular economy, however, is technically more of a *diversion* of waste, rather than true circularity.



What is Scope 3?

Scope 1 emissions are those coming directly from a businesses activity, while scope 2 are indirect emissions related to a businesses energy requirements.

Scope 3 emissions represent the indirect emissions up and downstream of a business. These can include things like emissions from business travel, supply chain transport or waste management.



The SME Opportunity: Proactively Inform their Scope 3

There are many statements around working with suppliers and the resulting reductions. Reading between the lines it's clear that Scope 3 is hard enough that most of the businesses don't want to do the work: put simply, they want you to do it for them.

So here's the big opportunity for SMEs part of any major supply chain. In a lot of cases your operating emissions contribute to their Scope 3.

If you have reviewed your emissions impacts and can show a plan to reduce them, you become a superstar upstream. They can build those numbers into Scope 3 reduction targets with minimal effort.

People Pleasers

Understanding the Social component of ESG requires stakeholder engagement, emphasising the impacts on employees, communities and people in the supply chain. For example, gender equality or addressing modern slavery are often at the centre of this part of the report.

All of the businesses place importance on Diversity, Equity and Inclusion. We found that targets of 40% women in senior leadership were common, and targets to reduce the gender pay gap, including compliance to the Workplace Gender Equality Act.

Some of the ten are achieving their goals, but others have median pay gaps higher than 10% or even reaching 20%.

Most of the reporting companies state they are working with First Nations communities in some way, aiming for increased employment outcomes and procuring from First Nations businesses. Six out of eight have Reconciliation Action Plans or are reportedly working to getting one endorsed. Overall there was little detail shared in the reports around how First Nations stakeholders were being engaged.

Most reports cited policies and support structures for LGBTQI+ and disabled employees maintaining inclusion as very important to their business. At an observational level they all appeared to be genuinely committed to this.

The SME Opportunity:
Stakeholder Engagement

While many of the companies have engaged stakeholders for different aspects of their social initiatives, it does appear in many cases to be validating their ideas, rather than including stakeholders from the beginning to guide them. This can lead to missed opportunities as well as a key risk of inherent bias.

Active engagement from the onset will present a clear strategic path with deep understanding of impacts, creating measurable targets and opportunities.

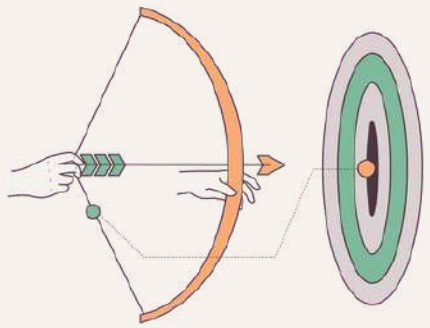
SMEs are particularly well placed to engage stakeholders, as they're typically closer to the action. Tapping into stakeholders early and often, forming tighter bonds and co-creating could unlock new opportunities for SMEs to leverage.

What Up, G?

In an ESG sense, governance refers to a company's structure, how a business manages its impacts and the commitment it gets at the highest level to sustainability.

Governance, in a sustainability context, is somewhat lacking. For the companies we reviewed, it is mostly limited to safety and compliance, and so governance statements in the reports were mostly linked to risk aversion. Some businesses have board sustainability committees, while others relegate it to standing risk committees.

There are multiple statements around striving for ethical treatment in supply chains. The use of the word 'ethical' like it's a choice is worrying. If a business is engaged in ethically questionable practices, they are inherently unethical. Ethics should be a governance base line. Unethical practices are not potential impacts, but are happening. This should make them a priority, not an aspirational goal.



Sustainability as an afterthought

The companies that are reporting are putting the effort in. They have all taken the time to use a framework to assess their impacts and are planning to reduce or remove them. In some instances it might look like it's too little too late, for example some still have targets set with a 2050 deadline.

An urgent 2035 target is considered more aligned with UN Global Stocktakes against Paris Agreement targets. The difficulty for these businesses is that they already have a very defined business and operational model.

ESG reporting, as a compliance measure therefore, is being added onto to that in a way that disrupts day to day business as little as possible.

The SME Opportunity: Sustainability is Strategic

Unlike some of the big players, SMEs have the agility to find opportunities in sustainability beyond compliance. Without being tied to entrenched operations there's flexibility to put sustainability at the heart of business.

This purpose-driven model opens your business up to strategic sustainability, innovative opportunities and recognising and preparing for coming obstacles.

Understanding where you fit amongst the impacts of others and a changing climate, scenario planning and recognising the signposts will build resilience in your business.

Everything is Awesome

Looking across the reports and the progress declared there are a lot of 'On Track', 'Ahead of Target' and 'Achieving' type of statements. There was only one company that reported failure to reach targets. Those who are reportedly tracking ahead haven't changed their targets. Admittedly, most of the plans they're tracking against are for 2025 achievement.

What inspires our scepticism here is that if this was any other plan, like innovation or cost saving, that was tracking ahead they would likely be adjusting those targets, stretching the organisation even further to see what is possible to achieve.

This is where greenwashing becomes a risk.

If you're setting soft targets then you're not putting sustainability at the core of your business. You are greenwashing.

Scope 3 emissions are the perfect example. If a company claims to be serious about emissions but has no Scope 3 targets or softer targets, they aren't serious. How can a supermarket that ships private label products from Europe that can be produced in Australia, seriously claim to be 'sustainable'?

What is Greenwashing?

Greenwashing occurs when companies falsely market themselves or their products as sustainable. It's not always intentionally misleading, it can happen when companies use vague claims or promote a single sustainable initiative while ignoring larger impacts.

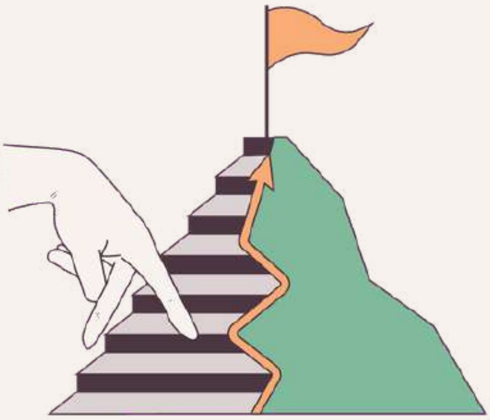
Greenwashing erodes investor and consumer trust, and importantly, it can delay genuine sustainable progress.

The Upshot

While it's great to see that sustainability is a part of some major companies in Australia, it's far from perfect. Soft targets, limited board buy-in and greenwashing risks are all evident in the handful of reports we looked at for this analysis.

While larger businesses are limited by operational legacy and driven by compliance, there are opportunities for smaller businesses to embrace sustainability as part of their purpose and strategically pursue the opportunities that it presents.

Reporting is an opportunity for understanding, driving strategy. A business of any size has impacts. Owning them and having aspirational targets and a plan to get there is the reason for the report. A sustainability report doesn't have to be a glowing report card. In fact, if it is, that's probably an indicator that you may not be trying hard enough.



About Wild-Built

We're a boutique strategy consultancy who gets that we can't tackle tomorrow's problems with yesterday's thinking. And that playing on with our heads in the sand doesn't make strategic or commercial sense.

Wild-Built is here to help you become genuinely future fit.

We centre sustainability as a strategic imperative and anchor it with purpose. By using scenario planning and systems thinking, we help our clients identify risks and opportunities, guiding them towards building a business - a legacy even - that will outlast 'business as usual'.

Melissa Packham

Director

After over a decade in FMCG marketing and almost a decade consulting independently, I bring a unique blend of expertise in business strategy, brand and marketing management, with a focus on authentic sustainability and challenging the 'business-as-usual' paradigm.

✓ GAICD (Graduate Australian Institute of Company Directors)
✓ Bachelor of Business (Marketing) / Bachelor of Arts (Humanities)
✓ Global Reporting Institute Certified Sustainability Professional
✓ Trained Climate Fresk Facilitator

Adam Suckling

Director

With 16 years of specialist knowledge in innovation, sustainability, and product development, I bring a pragmatic, systems-thinking approach to every project, leveraging research and experimental design.

✓ Master of Entrepreneurship & Innovation (Sustainable Energy)
✓ Graduate Certificate in Brewing
✓ Bachelor of Food Technology (Hons)
✓ Global Reporting Institute Certified Sustainability Professional

Wild-Built™

Where to from here?

If ‘sustainability’ and ‘ESG’ have been on your mind and this report has piqued your interest further, we invite you to get in touch with us.

Our next step would be to have an obligation-free chat to understand more about your business and dive into your current thinking, so we can give you our best recommendations.

Don’t be shy. We have no time to lose.

Contact us.

Visit: wildbuilt.co
Email: hello@wildbuilt.co
Follow: @wild-built on LinkedIn