Moving transition from plans to action:

→ *A transition planning primer*

EXECUTIVE SUMMARY

World Business Council *for Sustainable Development*

ERM SUSTAINABILITY INSTITUTE

Executive summary

Transition planning is the missing link between setting and achieving net zero, nature-positive, and just transition commitments through their integration into business operations. While some companies have started drafting and disclosing transition plans, their credibility and integrity need to be urgently improved. Many other companies haven't started the process at all.

Insufficiently engaging with transition planning carries rapidly expanding risks, from conflict with regulators and reputational damage to higher capital costs and shrinking access to credit. However, the advantages go beyond compliance. Embedding transition planning into business-as-usual processes, such as strategy and risk management, will promote value protection and creation and accelerate the transition to a just, low-carbon economy. It pushes companies toward a cross-functional strategy, bringing together commercial and sustainability goals under the same process, which is one of the challenges of putting broad goals into action.

Transition planning is a multi-year change management process that starts when it is embedded into overall business strategy, operational plans, and targets. This cannot be done without investing in the proper organizational infrastructure. Internal functions need to collaborate and be supported by clear communication, targets, and investments, and be held accountable. Strategic planning is essential for alignment and achieving effective implementation. A robust transition plan provides the north star, or blueprint, to kick off this process.

While transition planning has been primarily focused on climate so far, rising attention to nature impact and just transition highlights the need for companies to take a holistic view wherever possible.

Transition plan 'gold standard' and its biggest challenges

This primer, produced by ERM and the World Council for Sustainable Business Development (WBCSD), uses the disclosure framework of the [UK Transition Plan Taskforce (TPT)](), which is currently considered the 'gold standard' for transition planning. TPT's framework has three guiding principles – Ambition, Action, and Accountability – which are subdivided into disclosure elements and sub-elements.

- → Ambition is about the urgency of acting on climate change and taking a strategic approach.
- → Action is about a company's implementation and engagement strategies.
- → Accountability centers on metrics and targets and who has accountability for the plan.

Figure 1: The TPT framework and its most challenging elements to implement

As part of the research undertaken for this primer, we surveyed a number of WBCSD members in the Corporate Performance & Accountability (CP&A) program on their challenges and priorities for transition planning. Figure 1 ranks the different sub-elements of the TPT framework by level of difficulty to implement, according to the surveyed companies.

According to the survey and additional engagement of WBCSD CP&A members, companies find the following four areas of transition planning most challenging:

- → Understanding and prioritizing climate-related risks and opportunities to enable strategy development and resilience.
- → Transition plan resourcing and integration into financial planning.
- → Accelerating innovation to develop low-carbon products and services.
- → Initiating value chain engagement and collaboration to mitigate risk hot spots within the value chain.

The business case for transition planning

Disclosure regulations will inevitably force companies to engage with transition planning. Undertaking transition planning requires considerable time, effort, resources, and commitment, yet it is still in the best interest of companies to take a beyond-compliance approach, irrespective of the regulations. If companies engage in a proactive and strategic way, a transition plan can form the corporate blueprint for driving net-zero transformation and seizing its commercial upside.

Transition planning is no one-size-fits-all

Maturity level matters in transition planning. A small but significant group of companies have been creating and disclosing transition plans for several years. However, most companies are still at the very early stages of their transition planning journey. Wherever a company falls on this spectrum of maturity determines its priorities for the transition planning process.

Maturity level: Early stage

Many companies at this stage have a robust picture of the size and sources of their carbon footprint throughout the value chain but haven't yet systematically assessed the levers, costs, timing, and complexity of a successful transition to low-carbon business operations. The two main priorities in the early stage are:

- → **Setting up internal and external stakeholder engagement:** A vital first step is to determine who needs to be involved during the different stages of a climate transition plan.
- → **Addressing data quality, availability, and management:** Early-stage companies must identify data needs and establish data collection systems from the outset.

Table 1: Advantages of transition planning

Transition planning lays the foundation for a value-driven decarbonization process and connects the commercial and sustainability strategies. This will encourage:	
01	Building resilience and competitor advantage through proactive revenue protection and/or growth from innovation, identification of new customer demands and markets, and development of low-carbon products and services.
02	Identification of cost management opportunities through reduced exposure to climate impacts on business models, optimized investment timing or mitigated exposure to increased physical risks.
03	Improved grip on and knowledge of the supply chain to grow market share or exert supplier/buyer power.
Transition planning promotes proactive management of complex issues facing the business and the steps the organization must take to position itself for future success. This will lead to:	
01	Better access to capital, including sustainable finance, potentially at a lower cost by showing alignment with investor and lender net-zero targets and pathways.
02	Improved communication with other stakeholders, e.g., customers and suppliers, purposeful management of climate issues, including value chain alignment to mitigate reputation and legal risk.
03	Improved positioning to attract talent – to transition successfully, organizations will need people with the right skillsets who increasingly want to work at organizations that proactively tackle sustainability issues.

Maturity level: Evolving

Mature companies have often begun to define transformation objectives and integrate climate and commercial strategies. In this stage, the focus of transition plan development should shift towards a thorough assessment of strategy resilience and effective transition lever implementation. The two main priorities are:

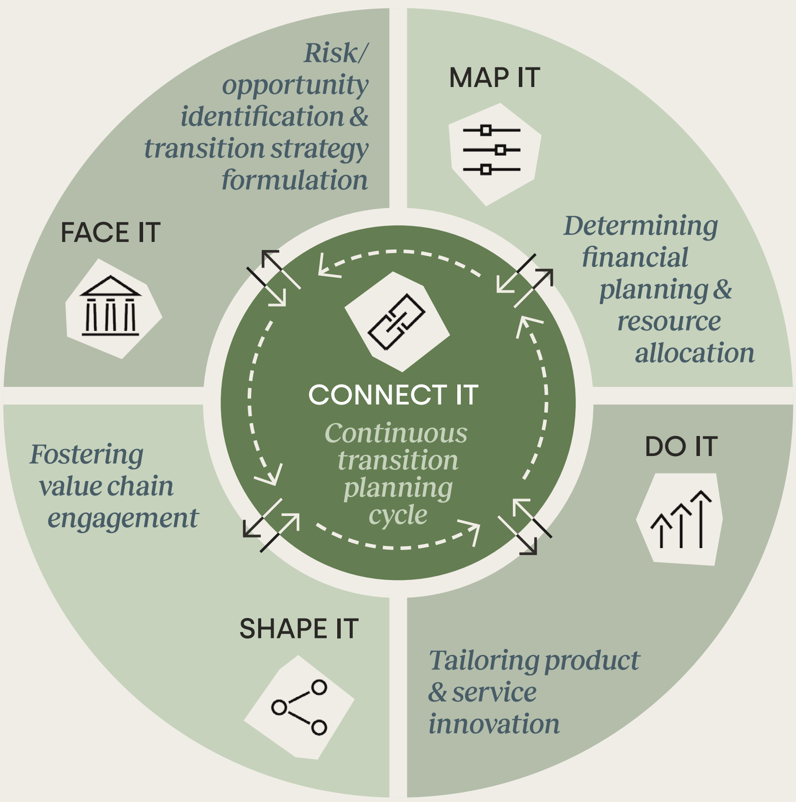
- **Framing business model transformation:** Evolving companies must develop a complete and quantified picture of their value chain impact and move toward strategic integration of transition planning.
- **Enhancing disclosure infrastructure:** A deep assessment of the company's position in relation to peers, regulations, and market to improve the transition plan, disclosures, and related data systems.

Priority implementation areas to ensure early transition plan successes

Laying and improving the foundation for transition planning is an essential first step and requires continuous effort. However, companies should not delay in the pursuit of perfection; implementation and foundation-building should evolve concurrently. Regardless of the transition planning stage companies are in, many are constrained by limited resources for implementation. Prioritization is critical when facing resource constraints. Four key priority implementation areas are essential for every company to achieve early success in the transition planning journey.

- Risk and opportunity identification and transition strategy formulation.
- Determining financial planning and resource allocation.
- Tailoring product and service innovation.
- Fostering value chain engagement.

Figure 2: **Overview of the transition planning cycle**



By tackling these priority areas, companies will be in a better position to achieve resource efficiency, drive momentum, and show early wins that build stakeholder confidence and internal and external support for the broader transformation. Companies should continuously invest in, revisit, calibrate, and align all four of these priority areas because they will continue to remain relevant. Summarized below are some of the immediate actions that companies can take to drive progress in the four priority areas.

Don't procrastinate

Robust transition planning will help companies overcome the biggest barrier to integrating sustainability into business: translating corporate climate goals into effective operational and commercial action. It will help companies avoid risks, identify new revenue opportunities, and better meet the expectations of regulators and investors. Companies can be tempted to delay transition planning due to outstanding uncertainty. However, uncertainty does not overrule the benefits of acting with urgency. And it's clear that no matter the loose ends, stakeholders want companies to make fast progress in transition planning. So, companies need to act. Anything else is a business risk waiting to happen.

Figure 3: **Selected immediate actions in four priority areas**

Risk and opportunity identification and transition strategy formulation

→ Continuously use climate scenario analysis to understand the scale of impacts, risks, and opportunities up to product and service levels to inform strategic decisions around mitigation and product development.

→ Identify practical short-term and long-term actions, ensuring limited resources are allocated to initiatives that offer the highest impact and align with strategic goals.

Determining financial planning and resource allocation

→ Calculate the costs and potential revenues (e.g., capital expenditure, operational expenditure, and return on investment) for each promising transition lever and integrate them into a priority framework to inform the budget and capacity allocation process.

→ Define metrics and targets for monitoring and managing the performance of critical elements of the transition plan (e.g., low-carbon product or avoided remediation costs).

Tailoring product and service innovation

→ Integrate useful information on climate impacts of products, such as Life Cycle Assessments, into business practices, to drive the development of alternative products and services.

→ Leverage climate-related scenario analysis and financial impact analysis to prioritize products and services that are profit drivers, have the potential to be profit drivers, or have a high risk of faltering in a low-carbon economy.

Fostering value chain engagement

→ Map value chains to understand emission profiles and stakeholder expectations and foster collaborative actions. Follow the same prioritization approach as other transition plan areas.

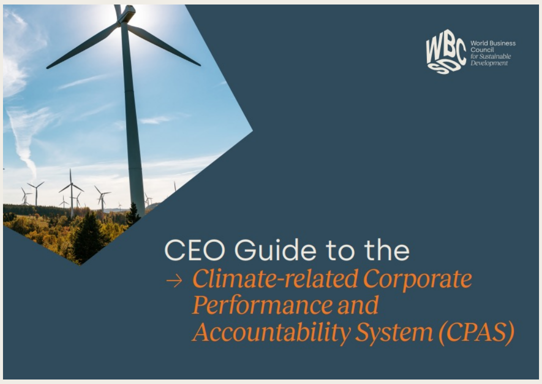
→ Establish the right partnerships with suppliers, industry partners, customers, and wider stakeholders, including government, to overcome barriers to transition and strengthen enablers.

Further reading

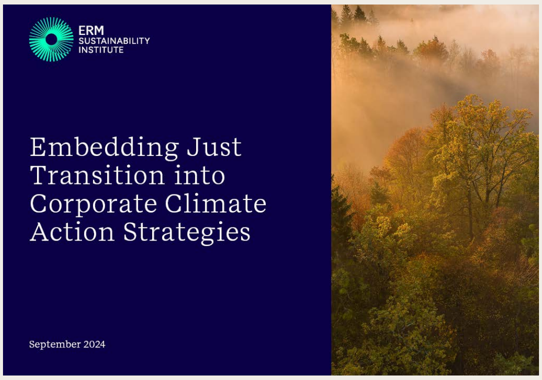
The following reports are available to support companies in helping companies advance their climate transition efforts.

[Catching the wave: Seizing the opportunities of the sustainability transformation]

[Climate-related Financial Impact Guide]



[CEO Guide to the Climate-related Corporate Performance and Accountability System (CPAS)]



[Embedding Just Transition into Corporate Climate Action Strategies]

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Disclaimer

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About the Corporate Performance and Accountability (CP&A) program at WBCSD

The Corporate Performance and Accountability (CP&A) program at WBCSD empowers members to integrate sustainability into decision making and leverage the power of transparency to transform and drive more aligned capital allocation. Integrated into WBCSD's action agenda, CP&A works across three areas: Enhancing transparency, aligning finance and value, accelerating transformation, supported by CFO and executive networks.

To discuss this report or to WBCSD's work in this area, email the team on cp-a@wbcsd.org or contact Fiona Watson (watson@wbcsd.org)

About the ERM Sustainability Institute

The ERM Sustainability Institute is ERM's primary platform for thought leadership on sustainability. The purpose of the Institute is to define, accelerate, and scale sustainability performance by developing actionable insight for business. We provide an independent and authoritative voice to decode complexities. The Institute identifies innovative solutions to global sustainability challenges built on ERM's experience, expertise, and commitment to transformational change.

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About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a global community of over 220 of the world's leading businesses, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Together, we transform the systems we work in to limit the impact of the climate crisis, restore nature, and tackle inequality.

We accelerate value chain transformation across key sectors and reshape the financial system to reward sustainable leadership and action through a lower cost of capital. Through the exchange of best practices, improving performance, accessing education, forming partnerships, and shaping the policy agenda, we drive progress in businesses and sharpen the accountability of their performance.

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