

Business Benefits of SBTs and SBTN

Overview

The following provides an overview of the key business benefits of setting science-based targets, a real world example that highlights the benefits of acknowledging and addressing nature-related risk, and lastly, the benefits that the Science Based Targets Network brings to companies in their sustainability journey.

Business Benefits of Science-Based Targets

Turning risk into opportunity

Science-based targets (SBTs) offer clear benefits for our planet as well as businesses. Some of the benefits for businesses include:

- Improved bottom line
- Increased investor confidence
- Getting ahead of regulation and policy changes
- Employee attraction and retention
- Stronger brand reputation
- Increased innovation
- Opportunity to collaborate and transform

An improved bottom line

Business impacts on nature can drive costs up. CDP's [The Palm Book](#) noted that “33 companies reported that together they may be exposed to US\$4.9 billion in losses if risks (from deforestation) are not managed.”

Research conducted by Blackrock demonstrated that sustainable companies are more resilient during downturns. Amid the coronavirus pandemic, Blackrock announced that 88% of sustainable indexes¹ outperformed their non-sustainable counterparts in the first quarter of 2020. This was not a one-off phenomenon, Blackrock saw similar performance during other notable market downturns in 2015-2016 and 2018 ([Blackrock 2020](#)). Other indices' performance support these results - Morningstar reported 51 out of 57 and MSCI reported 15 of 17 of their sustainable indices outperformed their counterparts in the first quarter of 2020 ([Lefkovitz 2020](#); [Nagy & Giese 2020](#)).

¹ Blackrock is defining sustainable indices as ESG-tilted portfolios. This analysis used 32 globally-representative, widely analyzed sustainable indices and their non-sustainable counterparts.

The CEO Water Mandate has shown that companies can reduce water-related costs “by implementing capital projects, modifying processes, and instituting behavioral change. Even in areas with low water prices, facilities may find cost savings by reducing the amount of energy used to transport or treat water.” See more here on the [CEO Water Mandate website](#).

Increased investor confidence

Recent research found that corporate managers underestimate the interest of investors in environmental, social, and governance (ESG) ([Eccles & Klimenko 2019](#)). Investors have increasingly scrutinized companies’ environmental performance and have looked for action to reduce nature and climate related risk in their portfolios. The creation of the [Task Force on Climate-related Financial Disclosures](#) (TCFD) has helped to increase standardization in this space and increase the amount of attention given to climate-related risks.

Investors, lenders, insurers, and other stakeholders are now demanding more transparency around nature related risks and opportunities. Some ratings agencies now include nature-related disclosures in their assessments (e.g. Moody’s, Fitch), as institutional investors are demanding more accountability in terms of the environmental risks of business operations (e.g. the Japanese Government Pension Investment Fund). Benchmark standards such as the International Financial Corporation’s Performance Standard 6 (IFC PS6), have begun to require that projects comply with practices to protect biodiversity. Other financial institutions have become signatories to the Equator Principles which require implementation of safeguards based on the IFC performance standards. As of September 2020, 110 international financial institutions in 38 countries are signatories to the Equator Principles ([Equator Principles](#)). Additionally, export credit agencies are increasingly applying standards through the [OECD’s Common Approaches](#).

Financial consequences related to nature-related risks include:

- Increased cost of capital or lending requirements;
- Write-downs of asset value and write-offs of assets;
- Increased insurance claims, higher premiums and loss of insurance value;
- Increased risk of default;
- Loss of investment value related to reputational risks; and,
- Potential for narrowing profit margins.

As we develop target setting methodologies and related Measurement, Reporting and Verification (MRV) , the SBTN will align with established and emerging corporate reporting standards and frameworks such as the [Global Reporting Initiative](#) (GRI) and the [Taskforce on Nature-related Financial Disclosures](#) (TNFD).

Getting ahead of regulation and policy changes

More regulatory controls, such as taxes and fines, subsidy reforms, stricter rules on land development, and trade policy are the likely outcome of the next CBD COP according to WEF’s [Nature Risk Rising](#) report. Some countries already have such policies in place. For example, Indonesia has put a permanent

moratorium on clearing natural forest and peatlands for palm oil and logging. By setting SBTs for nature, companies can get ahead of regulation. For example, they will be on track to meet requirements if the EU follows through with its promise of mandatory due diligence throughout supply chains ([Depping, Etzel & Walden 2020](#)).

A stronger brand reputation

Both shareholders and the public are holding companies more accountable for biodiversity loss than ever before, according to WEF's [Nature Risk Rising](#) report. Reputational risks can result in lost sales, lost investment value, and damage to the brand. Managing nature-related impacts can help build brand equity with consumers, investors, employees, and other key stakeholders. According to CDP's report, [The Money Trees](#), "highlighting yet again the value of the consumer, we find that the greatest and most frequently reported opportunities from addressing deforestation come from increased brand value with US\$13.8 billion worth of opportunities available." Additionally, a [survey](#) conducted on corporate executives of companies that set SBTs for climate through SBTi found that 79% thought their strengthened brand reputation to be one of the most significant business benefits for their company.

Companies setting SBTs for nature are able to signal that they are taking responsibility and are committed to a better future. Addressing nature appropriately can lead to increased market share and customer loyalty. For example, Unilever recently announced that its purpose-led, Sustainable Living Brands are growing at a 69% faster rate than the rest of the company and are delivering 75% of its growth. According to Unilever CEO, Alan Jope, "two-thirds of consumers around the world say they choose brands because of their stand on social issues, and over 90% of millennials say they would switch brands for one which champions a cause" ([Unilever](#)).

Employee attraction and retention

Organizations that focus on sustainability are better placed to attract and retain talent, especially millennials. Millennials, or 'the change generation' are marked "for their passion and desire to have a personal impact through their work" ([Stevens 2018](#)). Setting an SBT demonstrates a company's recognition of its impacts and dependencies on nature and therefore signals to employees that it is taking these issues seriously. In a 2016 [survey](#) by Cone Communications, 64% of millennials took a company's social and environmental commitments into consideration when making employment decisions and 83% would be more loyal to a company that contributes to social and environmental issues.

Increased innovation

Companies that innovate through technological improvements, new products, production methods, and business models create many opportunities for themselves. This could allow them to capitalize on the cultural shift towards products and services with a lower environmental impact, to strengthen their competitive advantage, to gain access to market capital, decrease the potential for stranded assets (e.g. land that cannot be developed), and potentially open up new revenue streams. According to CDP's report, [The Money Trees](#), increased innovation amounts to US\$2.5 billion in opportunities. In a [survey](#)

conducted on corporate executives of companies that set SBTs for climate through SBTi, 63% of respondents said setting an SBT for climate is already driving innovation within their company. We can learn from [case studies](#) of how setting SBTs for climate spurred innovation within the companies - from environmental funds that provide employees access to finance for emission reduction projects to providing employees a license to innovate to meet sustainability and business goals to new low carbon energy technology or the redesigning a product (which otherwise would not have been redesigned) that is better environmentally and in quality - to demonstrate that setting SBTs for nature will have a similar effect.

Generally, over the last decade, we have seen how addressing nature-related problems has begun to spur unique innovations more broadly. The [Nagoya Protocol](#), an innovative environmental treaty, helps to ensure benefit-sharing, by creating incentives to conserve and sustainably use genetic resources. It not only encompasses ecological but social and economic aspects thus supporting the goal of a fair and just society.

An opportunity to collaborate and transform

Economists and businesses are increasingly finding that it is possible to create value by maintaining public goods rather than contributing toward their deterioration ([Dasgupta et al. 2020](#); [Henderson 2020](#)). Investment in the places where we live and do business starts with a simple choice: to give back at least as much as we take from nature, and preferably give more so that nature can begin to recover. Investment requires optimism about the future, and it requires that we put the long term first ([Carney 2015](#)). Investment can take many forms. It can be a restoration project or an educational campaign targeted at consumers, a sector-wide collaboration to pool resources for data collection or a scheme that pays local people for the benefits they generate by caring for a mangrove forest. By acting as environmental stewards together, companies can help protect nature and human wellbeing and improve the functioning of the real and financial economies. See more on this in the keystone dialogs, [Folke et al. 2019](#), [Osterblom et al. 2017](#). Taking care of nature bolsters a company's social license to operate. Upstream, this translates into building trust with communities, other stakeholders and regulators, helping a project gain approval and acceptance. Downstream, it improves relationships and brand with investors, civil society, consumers, and employees. A transition to a nature-positive world will create resilient job opportunities, minimize costs, reduce insecurity and uncertainty and generate trillions in business value ([WEF 2020d](#)). Therefore, businesses' relationship with nature can be one of mutual benefit and cannot be done in isolation but with all businesses collaborating, contributing and transforming positively.

While attention to nature-related risks is rising, the many interrelated impacts and dependencies that companies share are often overlooked. For instance, agribusinesses heavily rely on pollinators; however, globally, pollinator populations have declined. This puts at risk the production of crops which has an estimated market value between \$235 billion and \$577 billion ([WEF 2020d](#)). This example underscores the interdependencies between nature and socio-economic necessities of human society and the reliance on multiple business sectors for one aspect of nature. Companies that identify shared impacts

and dependencies on nature can take collaborative, and more effective action to address issues of shared interest.

Real World Example - Connecting Nature Risk and SBTs

The following is a real world example of how human decision making and natural hazards compound to cause damage. Over the course of 2017-2018 in Northern California, wildfires scorched towns, fields and forests. The major utility company held responsible for damage to private property and over 80 deaths was pushed toward bankruptcy in the face of over \$30 billion in liabilities. Drops in share value and loss of consumer trust have also had enduring effects. While the company's negligent approach toward infrastructure upkeep may have increased its own vulnerability in the face of a fire hazard, researchers have attributed the increase in the likelihood of the hazard (fire), as well as factors increasing its severity to faulty fire prevention programs (leading to fire fuel build up), years of drought (exacerbated by poor water resource management and climate change), as well as degradation of ecosystems in the region (due to industrial economic activities). Commercial developments and houses near the powerlines and landscapes where the fires quickly spread exacerbated human exposure to the hazard. Extreme levels of land conversion in this region due to human settlement, timber extraction and other industrial activities, combined with water shortage created a scenario of heightened risk, for which the energy company in question was not prepared.

SBT setting would enable a company like this to consider the impact of its activities on land conversion, climate, and water far in advance of material consequences. Proactive screening through Step 1 of SBT setting, matched with interpreting potentially material concerns within the context of ecological limits (amongst other factors) in Step 2, can help companies have peace of mind that they are aware of and thus better able to manage potential material risks driven by complex biophysical dynamics. In Step 4, companies will engage in transformative behavior. Transformation actions can be taken within the company's value chain, adjacent to their value chain and at the systems level. For this company, system-level collaboration and transformation may include policy development and lobbying on California's forest and water policy. In sum, the SBT process would not be done in isolation but provide opportunities for a company like this to collaborate with other stakeholders in which it operates in order to have maximum impact in addressing its impacts and dependencies on nature.

Business Benefits of SBTN

In addition to the business benefits setting SBTs will bring to your company, here is what SBTN can uniquely add to your company's sustainability journey:

- **Consolidated approach:** The methods and targets designed by SBTN are being built on existing sustainability tools, approaches, and platforms, providing an efficient and effective resource for business users.
- **Practicality:** We are working with end users to 'road test' draft methods and ensure that SBTs are practical and intuitive for businesses, irrespective of industry and where they sit on the value chain.
- **Credibility:** The guidance is being developed by experts from the world's leading environmental NGOs, governmental organizations, purpose-driven consultancies, ambitious businesses, and

society-minded business coalitions. The guidance is grounded in the best available science defining what is necessary to do at least “enough” to stay within Earth’s limits.

- **Stability:** While the science will continue to evolve, SBTN’s framework for setting SBTs will be designed for long-term use. Today, we are proposing a series of principles that we will use for selecting indicators, and best practices for target implementation that can underpin ambitious corporate action for nature. These can ensure that resources invested have a lasting impact.
- **Prioritization:** The SBTN approach to target setting will help companies prioritize places and issue areas for action, using the best available science, so that companies can confidently address their most urgent impacts and dependencies.
- **Communication and alignment:** The approach to setting SBTs lends itself to straightforward communication about your target setting journey. Using the terminology of the five-step process, companies can say “I am at Step 1: Assess” vs. “I am on Steps 4: Act and 5: Track.” This is helpful for internal stakeholders, as well as stakeholders like investors, NGOs, and third party monitors. Given that the targets companies can set using SBTN’s methodologies are explicitly aligned with global societal frameworks for action, SBTs can be used to quickly communicate which issues you are contributing toward resolving (e.g. land and sea use change, marine and freshwater resource exploitation). SBTN’s indicator framework will help ensure you are measuring the right indicators, and able to assess how these contribute toward your desired outcome.
- **Controlled tradeoffs and increased co-benefits:** A key advantage of integrated SBTs is that they are being designed to recognize the interconnection of issue areas, and thus allow you to take action on multiple issues at once (and not create new problems). When designed and implemented correctly, SBTs can help resolve interrelated climate and nature risks, including:
 - Mitigating climate hazards like heat waves, floods and droughts
 - Preserving freshwater resources and increasing water security
 - Regenerating land systems
 - Supporting healthy, diverse oceans
 - Conserving biodiversity and preventing species extinction
 - Ensuring equal opportunities for societies to sustain a decent living and to access the benefits of the transition toward a zero emission, nature-positive future.