Moving transition from plans to action:

→ *A transition planning primer*

World Business Council for Sustainable Development

ERM SUSTAINABILITY INSTITUTE

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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:

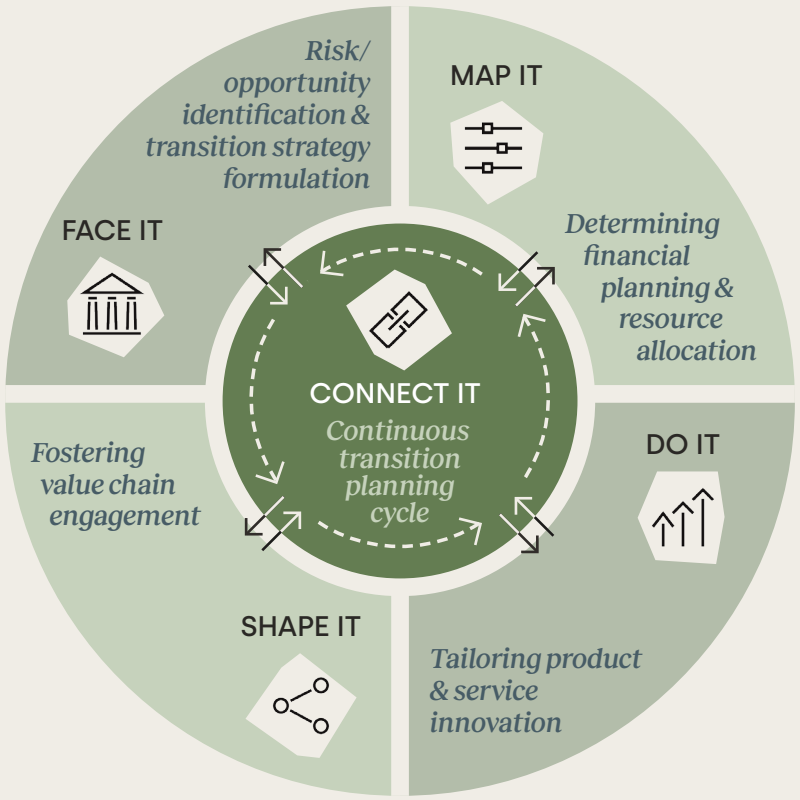
- → **Framing business model transformation:** Evolving companies must develop a complete and quantified picture of their value chain impact and move toward strategic integration of transition planning.
- → **Enhancing disclosure infrastructure:** A deep assessment of the company's position in relation 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.

Why this *primer?*

01.

01. Why this primer?

Introducing a new complex process like transition planning into corporate strategic planning and other business-as-usual processes is challenging. This primer, produced by ERM and the World Business Council for Sustainable Development (WBCSD), serves as a practical guide and meets organizations where they are in their transition planning journey. It leverages the guidance from the Transition Planning Taskforce (TPT) and other bodies, as well as insights from engagement with WBCSD member organizations.

Organizations that are just starting out will benefit from examples and recommendations around engaging with stakeholders to develop a plan, as well as tackling data quality, availability, and management challenges. For organizations that have begun to evolve their business model, this primer offers examples and recommendations on framing how the business is changing and how to effectively disclose the critical climate transition plan elements. Finally, it focuses on four priority areas for implementation that are relevant to both groups.

To establish this primer's priority areas, we surveyed a subset of WBCSD Corporate Performance & Accountability (CP&A) members who have joined a transition planning workstream. The four areas companies found most challenging are:

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

By tackling these priority areas, companies can achieve resource efficiency, drive momentum, and show early wins that build stakeholder confidence and internal and external support for the broader transformation.

Transition planning: From nice-to-have to must-do (well)

Businesses are increasingly committing to ambitious climate, nature, and social targets. However, the translation of sustainability goals into effective operational plans and actions is lagging. Transition planning is the missing link between net zero, nature positive, and just transition commitments and full implementation of these goals into business operations throughout the value chain.

Successful integration of transition planning is instrumental for a holistic corporate response to the commercial risks and opportunities of the sustainability transformation and reaching net zero and nature-positive targets in an equitable way. While some companies have started drafting transition plans, their credibility and integrity need to be urgently improved. Other companies haven't started the process at all.

Pressure on companies to get serious about transition planning is building, with increasing expectations from investors, stakeholders, standard setters, and regulators. To many companies, this may feel like yet another challenge in the whirlwind of policy, technology, and commercial disruptions they currently face. What adds to the complexity is that the specifics of what a transition plan should look like are still unclear. For example, should it be aligned with 1.5 degrees of the Paris Agreement, and can companies include carbon offsets?

Still, despite the current uncertainties, the trend towards transition planning is here to stay, and with the right approach, it can become a powerful tool to improve strategic resilience, navigate the net-zero transition, and meet other sustainability goals.

Transition planning is a tool for companies to manage the scale, risks, and opportunities associated with the just transition to net-zero emissions and nature-positive impact.

It helps convert broad goals into operational actions in a systematic way and creates an organizational feedback loop to modify and adapt these actions when needed. Ecosystems and biodiversity must be part of transition planning to create an integrated approach to addressing the interconnected climate and ecological crises. Social issues,[1] such as the impact on communities, human rights, and equal clean energy access, are also essential aspects of transition planning.

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.

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Transition planning is coming to your jurisdiction

Regulators are broadly moving beyond mandatory disclosures of emissions and climate targets toward disclosure of the concrete actions that companies will take to achieve those targets. The option to disclose transition plans has been around for a while in some voluntary disclosure frameworks, like TCFD or CDP, but this has not created significant momentum until very recently.

Recently, regulatory bodies have started or signalled intent to mandate transition plan disclosures, formalizing voluntary initiatives into regulatory frameworks and standards. Within a few years, most large companies will be required to specify their planned actions in a transition plan as part of disclosure requirements. As is often the case, Europe leads the way, but other jurisdictions will soon follow.

Table 2: Overview of transition planning disclosure regulations and standards

Disclosure standard	Geographic scope	Is transition plan disclosure mandatory	Implementation timeline	Number of companies impacted
Corporate Sustainability Reporting Directive (CSRD)	EU led with global applicability for companies	Disclosure as to whether a company has one, and if so, details need to be provided	2025	~ 50,000
Corporate Sustainability Due Diligence Directive (CSDDD)	EU	Yes	2027	~ 6,500
International Financial Reporting Standards (IFRS) S2, aka the ISSB standards	Global in various jurisdictions, once ratified	Disclosure as to whether a company has one, and if so, details need to be provided	From 2025	TBD
Financial Conduct Authority (FCA) Sustainability Disclosure requirements	UK	Yes	2026*	~ 600 in first wave*
Securities and Exchange Commission (SEC) Climate Rule	US	Yes, if adopted to manage a material transition risk	TBC	TBD

* (estimated start date and numbers)

Both the European Union's Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) will soon require large companies in EU-regulated markets to disclose a transition plan. Under CSRD, if companies do not have a transition plan, they should indicate when they will make transition plans publicly available. In the United Kingdom, the Financial Conduct Authority (FCA) is expected to regulate the largest listed companies to disclose transition plans aligned with the Transition Plan Taskforce (TPT) framework, potentially as early as 2026.

The TPT framework, including its guidance on how to start transition planning[2], provides comprehensive guidance that goes beyond emissions management and includes equity and social considerations, which are crucial to achieving a just transition. Although launched in the UK, the TPT framework seemingly is developing into the global gold standard for transition plans.[3]

Regulators and standard setters also increasingly recognize the need for nature-focused transition plans. The CSRD, for example, requires companies to report on their transition plans for managing climate and nature-related risks, including target setting to mitigate environmental impact, protect biodiversity, and adopt nature-based solutions. Recent implementation guidance from The European Financial Reporting Advisory Group (EFRAG) on what and how to report against the CSRD transition plan disclosure requirements gives further guidance.[4]

The Taskforce on Nature-related Financial Disclosures (TNFD) and Glasgow Financial Alliance for Net Zero (GFANZ) recently published consultation papers and guidance on integrating nature impact in net-zero transition plan.[5] Both initiatives leverage and build on current TPT approaches and frameworks applied to climate.

The International Sustainability Standards Board (ISSB) has now taken on the materials of the UK TPT and is widely expected to assume responsibility for its further development and related guidance. This gives the TPT framework global significance. Regulators in a host of countries are in the process of making ISSB's standards the basis of their mandatory sustainability disclosures. In the future, ISSB standards may be updated to include some TPT requirements.

Since various transition planning frameworks can have different requirements for organizational transition, companies should pay close attention to the specifics of the transition planning framework they align with, especially concerning regulations they must comply with. For example, TPT does not require net-zero greenhouse gas targets, while CSDDD will require 1.5℃ aligned disclosures.

Investors and banks use transition plans to weigh climate-related financial health

Few companies can survive without external capital. Banks and financial institutions increasingly require borrowers to have credible transition plans and/or provide significant pricing incentives for them to do so. They are also publishing transition planning guidance to support their customers. This includes assessment criteria for transition plans and classifications for transition finance, for example, from GFANZ. This enables investors and financial institutions to weigh their financial exposure to climate-related risks but also helps them understand climate-related opportunities and the dependencies of their clients. Some banks have gone further, explicitly tying the credibility of climate transition plans to future access to capital.

For example, the Dutch bank ING recently announced that 2000 of its largest clients have until 2026 to make sufficient progress on curbing their carbon emissions in line with the Paris Agreement targets. ING will base its assessment on companies' publicly available transition plans. If companies cannot demonstrate convincing progress by 2026, ING will apply stricter credit conditions or cease providing credit.[6] Another bank, French BNP Paribas, pledged that 80 percent of its investments in energy production will be low carbon by 2028.[7]

There are similar trends among investors. A recent Blackrock survey[8] among global insurers representing $27 trillion in assets found that virtually all had a low-carbon investment objective, which could be considered a precursor step to transition planning. While most financial institutions are still primarily focused on climate transition planning, insurers also increasingly focus on corporate response to nature impacts. During discussions at COP16, insurers showed they are on the frontline of recognizing and monetizing various nature-related risks.[9]

Norges Bank Investment Management (NBIM) is another example. It is the largest single owner in the world's stock markets, owning almost 1.5 percent of all shares in the world's listed companies and with assets under management of ~$1,700 billion. NBIM explicitly sets out several foundational core expectations of its investees that directly inform their voting and ownership activities including transition plans. They expect time-bound and quantified transition plans, interim emission reduction targets, and annual disclosure of progress against pre-established and consistent KPIs. Furthermore, they expect companies to align their lobbying activities with the objectives of the Paris Agreement.[10]

See also the guidance[11] issued by the Institutional Investors Group on Climate Change (IIGCC) detailing the five key components of a credible corporate transition plan that are consistent with the requirements of investors implementing the Net Zero Investment Framework.

In addition, the newly launched Oxford Climate Policy Monitor will evaluate regulations in transition plans and notes that rules that require companies to lay out their transition planning are increasingly being used to assess how climate action will be delivered and to counteract greenwashing.[12]

The message is coming through

Companies are taking note of the increasing pressure to provide investors with information about their concrete plans to build resilience into their operations and value chains against climate, nature, and social risks while seizing the commercial opportunities of sustainability transformation. The number of companies reporting to CDP[13] that disclosed their transition plan increased to close to 6000 in 2023, a nearly 50 percent jump compared to 2022, and 8200 more reported that they expected to create a plan by 2025. GFANZ saw strong adoption of the Net-Zero Transition Planning framework and expects approximately 250 financial institutions will base their transition plans on it in 2024.[14]

However, transition planning should not be treated as another compliance exercise. Over time, investors, lenders, and regulators will not be satisfied with a transition plan alone; they will want to see the concrete results it delivers and, if they fall short, how companies plan to course correct to catch up. Companies must graduate from creating static transition plans to dynamic transition planning.

Transition *planning 101*

02.

02. Transition planning 101

A transition plan is a roadmap for how a company will transform its assets and operations and enhance business model resilience by:

- → Reducing climate, nature, and social impacts through emission mitigation and nature preservation.
- → Responding to climate, nature, and social risk and opportunity externalities.
- → Contributing to the low-carbon, nature-positive transition of the economy through value chain engagement and beyond.

The design and key components of a transition plan can vary by disclosure standard. This primer uses the Transition Plan Disclosure framework – published by the Transition Plan Taskforce (TPT) – as its primary reference because it is increasingly regarded as best practice. This chapter covers the basics of the TPT framework and explains how WBCSD CP&A members helped determine priority areas for this primer.

Although this primer focuses on the TPT disclosure framework, it is recognized that there are other frameworks and guidelines available to companies, including GFANZ, CERES, Exponential Roadmap Initiative, Network for Greening the Financial System (NGFS), the Transition Pathway Initiative, Climate Action 100+, CDP, and the International Transition Plan Network (ITPN), which was launched by E3G at New York Climate Week, among others. EFRAG has also recently published[4] an early-stage draft on transition plan implementation aligned with CSRD-ESRS disclosure requirements that, once finalized, will also shape transition plan best practices. For organizations with limited financial requirements, we recommend working to meet regulatory requirements (e.g., CSRD) for compliance first while aligning with TPT over time.

TPT guiding principles and disclosure elements

The TPT uses the ISSB's definition of climate transition planning as its starting point. According to ISSB, such a plan is *"an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."* The TPT framework builds on this definition to help organizations establish a credible transition plan and provides guidance on how to share information on progress as part of regular reporting. The TPT disclosure standard has three essential guiding principles:

- **Ambition** is about the urgency of acting on climate change while being mindful of taking a strategic and rounded approach that captures opportunities, minimizes future risks, and considers the long-term value for stakeholders, society, the economy, and the environment.
- **Action** is the implementation of ambition into concrete, actionable steps to be taken over the short, medium, and long term. Priority should be given to actions that directly reduce emissions, build resilience, and avoid "locking in" carbon over the long term. Planned actions need to be supported by adequate resource planning.
- **Accountability** is about ensuring that transition planning is integrated into the company's broader strategy. Organizations need to determine who is responsible for different aspects of the plan. Transition planning should be part of the company's wider financial and business planning, and important elements of the plan should be included in financial reporting.

Figure 4: TPT Framework and its most challenging elements according to WBCSD survey of CP&A members

Source: TPT Transition Plan Disclosure Framework; overlaid with a qualitative view of the disclosure elements that are most challenging to respond to, which was developed by ERM with input from WBCSD member engagements.

Each guiding principle covers one or more disclosure elements. The five main disclosure elements entities should disclose are:

- **Foundations –** This element covers the Strategic Ambition of the transition plan. It should include objectives, priorities, and a budget, and explain how the plan will capture opportunities, avoid adverse impacts for stakeholders and society, and safeguard the natural environment.
- **Implementation strategy –** The actions taken within business operations, products and services, and policies and conditions to achieve the Strategic Ambition, as well as the resulting implications for its financial position, financial performance, and cash flows.
- **Engagement strategy –** Engagement with the value chain, industry peers, government, public sector, communities, and civil society to achieve the Strategic Ambition.
- **Metrics and targets –** The metrics and targets used to drive and monitor progress towards the Strategic Ambition.
- **Governance –** The governance structures and organizational arrangements embedded in the transition plan to achieve the plan's Strategic Ambition.

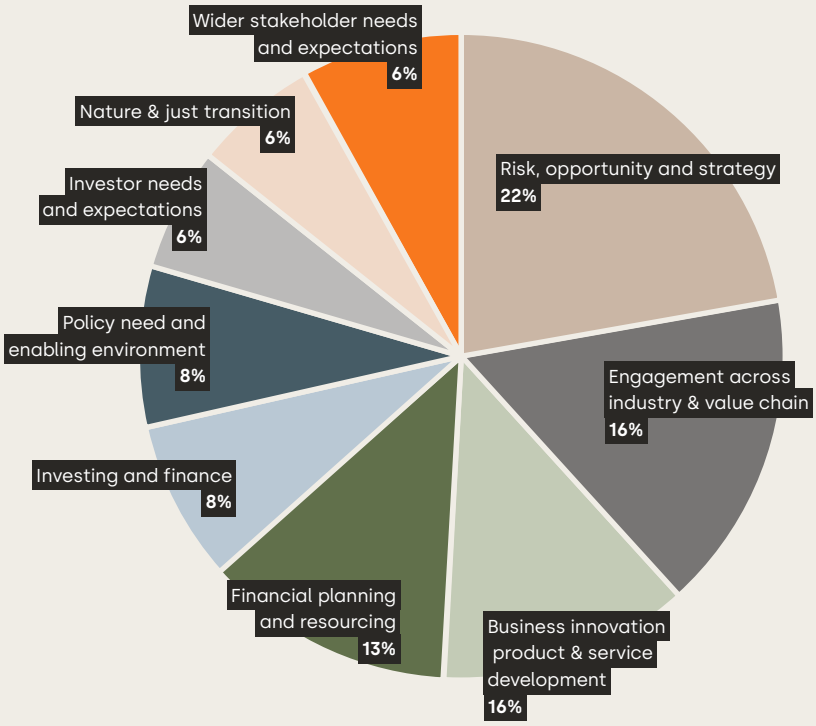
Priority areas of this primer

The TPT framework covers nearly 20 sub-elements, as shown in Figure 2. To narrow down the priority areas for this primer, we surveyed a subset of WBCSD CP&A members who have joined a transition planning workstream. The survey was designed to understand the most challenging elements of establishing and incorporating transition planning into business processes. Survey responses and additional engagements through the WBCSD transition planning member workstream determined that the four priority areas companies find most challenging are:

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

This primer will follow these priorities to ensure that it provides practical, action-oriented advice on how to tackle the most challenging issues of transition planning.

Figure 5: Climate transition planning focus areas of surveyed WBCSD members



Survey of 18 WBCSD members in May 2024 in relation to climate transition planning. The survey asked 21 questions related to priorities, challenges, internal and external stakeholders, understanding of transition planning/ climate disclosure regulatory landscape, senior management engagement, business transformation, data gaps, and considering nature, social, and other factors.

The business case for transition planning

Building a strong business case and getting the buy-in of senior leaders is a critical first step in the transition planning process. Disclosure regulations will force companies to engage with transition plans to meet compliance requirements. However, if companies limit their objectives to regulatory compliance, they could miss out on important strategic opportunities.

A well-designed transition planning process can serve as a blueprint for driving net-zero transformation. It can help companies align their business model, strategy, and net-zero objectives and lay the groundwork for integrating decarbonization into core operations. Transition planning can generate benefits across several themes, including:

Turning risk into opportunity

Transition planning creates an itinerary for businesses to identify risks and opportunities from the transition to a low-carbon economy and help them reshape management approaches and business processes accordingly. It fosters a proactive approach that keeps companies ahead of emerging risks while capitalizing on new growth areas. It prepares companies to move fast when the time is right to gain a competitive advantage or recognize new market opportunities early.

Enhancing products, services, and resourcing

Transition planning can drive innovation by encouraging companies to rethink their products and services in the context of climate, both from the perspective of reducing climate impact and value creation opportunities. If done with an open strategic mindset, transition planning can optimize resource allocation for transition measures. For example, a potential adaptation measure will be assessed alongside a potential mitigation measure, which allows better decision-making, including understanding trade-offs. This process equips companies with the tools and capabilities to meet net-zero objectives and enhance business model resilience.

Boosting engagement and building trust

Effective transition planning fosters internal and external engagement. It promotes collaboration and activation across internal functions and business units/functions and builds trust with external stakeholders. Engagement is crucial for ensuring that all parts of the organization are aligned with the transition goals. Without it, achieving a competitive edge will be out of reach. A credible transition plan will also help build trust with investors and facilitate access to capital and finance to support implementation priorities.

Improving performance and developing skills

Transition plans enhance overall business performance by integrating climate considerations into processes, such as commercial strategy setting, resource allocation, and refining metrics/KPIs to track progress toward climate goals. Transition planning also helps identify existing gaps and growth areas for essential skills within the workforce so companies can act to ensure employees are equipped to navigate the complexities of a net-zero economy.

Figure 6: Advantages of transition planning in a nutshell

Transition planning lays the foundation for decarbonization and resilience by creating a cross-functional strategy process that brings together business/commercial and sustainability/climate strategy. This will encourage:

- → 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.
- → Identification of cost management opportunities through reduced exposure to climate impacts on business models, optimized investment timing or mitigated exposure to increased physical risks.
- → 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 businesses face and the steps the organization must take to position itself for future success. This will lead to:

- → Better access to capital, including sustainable finance, potentially at a lower cost, by showing alignment with investor and lender net-zero targets and pathways.
- → Improved communication with other stakeholders, e.g., customers and suppliers, through purposeful management of climate issues, including value chain alignment to mitigate reputation and legal risk.
- → 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.

Transition planning pitfalls

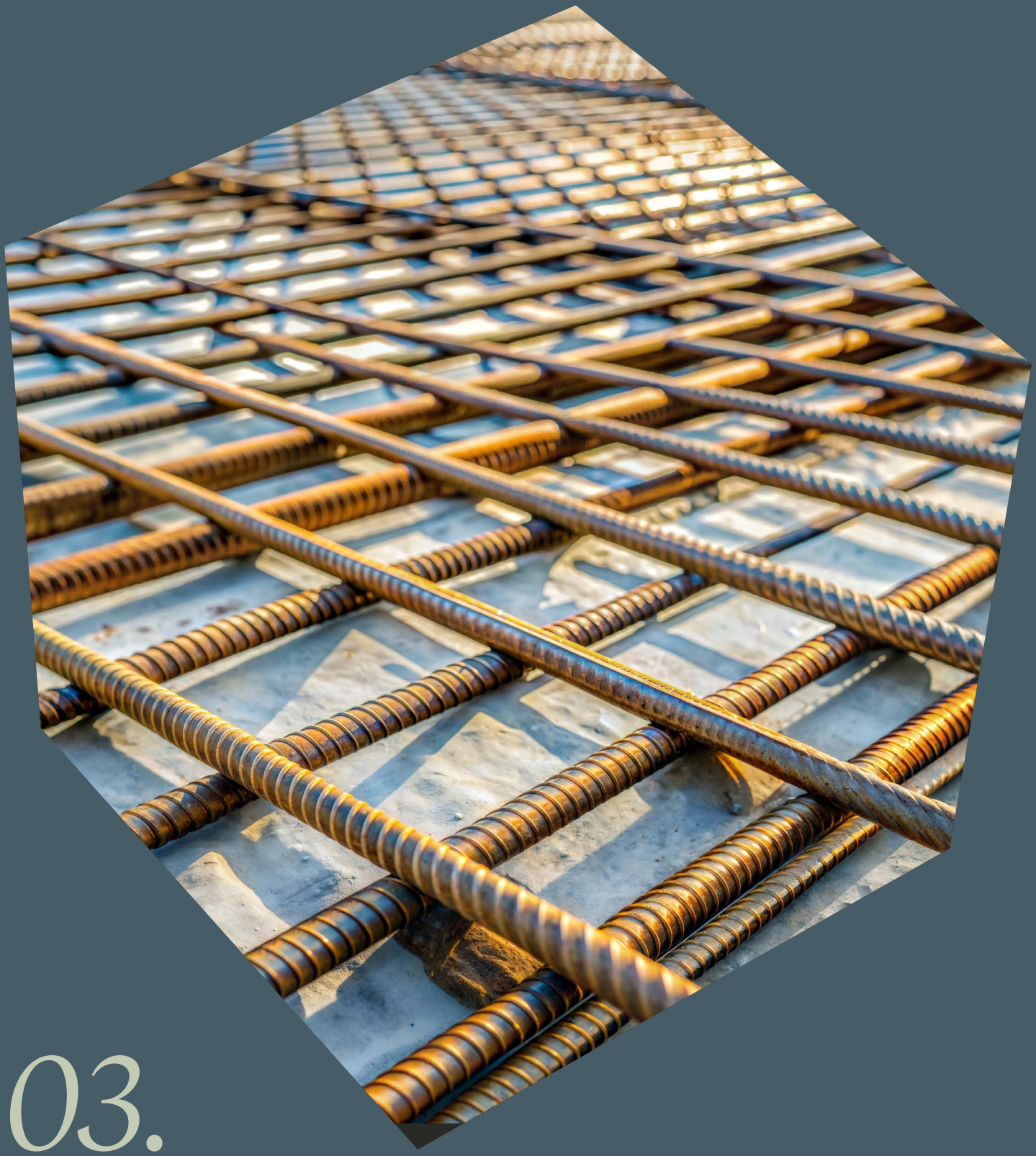
As with any complex new process, there are pitfalls companies should avoid when they engage with transition planning. Whether a company has just started or is trying to move into the next step of transition planning, there will be moments when the work may be so challenging that skipping a step seems tempting. Organizations must remember one of the main pillars on which the value of transition planning rests is trust. Increasingly knowledgeable stakeholders, such as regulators, investors, and NGOs, will see through surface-level efforts sooner or later. The credibility loss this causes – from mistrust and reputational damage to possible legal ramifications – may take years to restore.

Figure 7: Six actions that undermine the credibility of a transition plan[15]

- → **Dressing up targets as actions.** Many transition plans frame their climate targets as actions while giving little information about the actual measures they have planned to achieve them.
- → **Skipping the financials.** Few companies disclose financial metrics and targets that give insight into how transition progress is measured or managed and what resources are allocated.
- → **Ignoring the link between climate impact and overall strategy.** Transition plans are often disconnected from the strategy evaluation process even though climate change and nature loss have a substantial impact.
- → **Forgetting the supply chain.** Transition plan disclosures often lack depth and specified actions regarding Scope 3 emissions.
- → **Neglecting planned action on dependencies.** How your organization intends to deal with critical climate and nature impacts and dependencies is just as important as listing them.
- → **Being vague about timing and uncertainties.** A good transition plan specifies actions for the short term and the medium term, as well as key uncertainties in the long term.

Building a solid foundation:

Activation challenges and solutions



03.

03. Building a solid foundation: Activation challenges and solutions

Kickstarting the transition planning process: Not a one-size-fits-all

While intensifying regulatory and investor pressure on companies to engage with transition planning may be new, transition plans have been around for a while. A small but significant group of leading companies has been drafting and disclosing transition plans for several years. However, many companies stand at the beginning of the learning curve, and there is always room for improvement.

In recognition of the different stages companies find themselves in on their transition planning journey, this chapter covers two overall perspectives: one for companies that are in the very early stages and one for companies that already have laid a foundation and are looking to take the next step. Several case studies explore lessons learned by companies in the process to date.

It is worth noting that there is a growing body of transition plan tools, including credibility assessments, frameworks, and benchmarking tools. Some of these come from financiers and are in the public domain, while others will remain 'for internal use'.

Maturity level: Early stage

Generally, companies at this stage have spent most of their time building a full picture of their carbon footprint throughout the value chain. However, they haven't yet systematically assessed the levers, costs, and complexity of a successful transition to low-carbon or nature-positive business operations. They also do not have a clear picture of the sustainability risks, opportunities, and dependencies of their current situation.

The two most important priorities for this group of companies are to get all these factors clearly into view by gathering insights across the organizational value chain and improving data, which will lay the foundation for prioritizing transition measures, establishing governance and accountabilities, and securing relevant senior stakeholder buy-in and approval. The two main priorities in the early stage are:

- → Conducting internal and external stakeholder engagement.
- → Ensuring data quality, availability, and management.

Internal and external stakeholder engagement

Engagement with internal and external stakeholders can make or break transition planning.

Internally, the corporate sustainability function should not develop transition planning processes alone. Board engagement and cross-company ownership, including integration into governance processes, are important. Cross-functional support and expertise are indispensable for creating the plan and its implementation. That doesn't come easy; active engagement requires alignment between diverse and sometimes conflicting interests and priorities across the organization. Creating awareness and a common purpose is key to success. Having the right skills and capacity within your organization is another foundational aspect of getting internal support for transition planning.

Externally, companies need to engage with stakeholders with substantial influence on their commercial well-being, such as investors, regulators, and communities directly affected by business operations, to request input on the transition plan priorities.

An important goal for both internal and external engagement is to extend the time viable sustainability projects get to come to full fruition. Internal budget and capacity cycles are often too short, partly because the board and management respond to the short-term timelines of investors and shareholders. In the table below, we highlight some priority steps.

Figure 8: What are the priority steps to promote stakeholder engagement as part of transition planning?

Immediate actions
→ Conduct detailed internal and external stakeholder mapping and engagement to identify who needs to be involved and at what stage. Also, identify internal and external stakeholder concerns, pain points, and how transition planning could offer solutions.
→ Identify key influencers and potential champions within the organization who can advocate for the transition plan and drive its implementation. Engage these internal stakeholders early in the process.
→ Identify the gaps in skills and capacity needed for transition planning and plan to fill those gaps through upskilling key employees, talent recruitment, and other capacity-building activities.
→ Remain in constant contact with regulators, investors, and community organizations to stay well ahead of their transition planning expectations and future trends to ensure access to capital and avoid regulatory, legal, and societal backlash.
→ Create processes or structures, such as an external advisory board, that enable regular engagement with stakeholders.
Future needs and opportunities
→ Customize internal engagement strategies to specific organizational contexts. Engaging with corporate and operational functions may require different approaches, KPIs, and performance management scorecards.
→ Define a long-term process for collaboration and shared responsibility across functions. It allows transition planning to be successfully sustained throughout the cycle.

Data quality, availability, and management

Data can be a real challenge for companies, starting with transition planning. High-quality, transparent data is essential for successful transition plans. Good data enables companies to estimate emissions, build financial models, and address future uncertainties with greater confidence. However, it's hard to collect high-quality data. This is especially true deeper into the supply chain, where most emissions are generated.

Early-stage companies shouldn't be surprised if they encounter many data gaps; it's to be expected. To start, companies can rely on proxies to fill gaps, although this decreases the credibility of estimates and models. They should prioritize putting plans in place to fill gaps with real data over time, essential for improving decision-making. Setting up centralized data management systems to collate, store, and analyze data is equally important.

Figure 9: How can organizations improve data quality, availability, and management?

Immediate actions

- → Engage with investors, lenders, and other relevant stakeholders to clarify expectations and concerns regarding the information and data needed to make informed capital/ finance allocation decisions.
- → Understand and map data availability for priority transition levers and disclosure requirements of the transition plan.
- → Assess the types and quality of data required for both disclosure and implementation purposes to ensure that the data used is as accurate and relevant as possible.
- → Develop a data improvement action plan, which should be a core component of any initial transition plan, to continuously enhance the quality and robustness of data.
- → As soon as possible, start building a data infrastructure and management system to house transition planning data.

Future needs and opportunities

- → Develop standardized data sets and methodologies that can be widely adopted across companies and sectors. This will enhance the comparability and transparency of transition plans across industries.

Maturity level: Evolving

More advanced companies have begun to define transformation objectives and integrate climate and commercial strategies. For companies at this maturity level, the focus of transition planning foundation-building shifts towards a thorough assessment of strategic resilience and effective implementation of transition levers. The two main priorities for companies are:

→ Framing business model transformation.
→ Enhancing the disclosure infrastructure.

Framing business model transformation

Sustainable business transformation can be an intimidating concept. To keep up with the ever-changing landscape and trends, companies must continue to adapt their business models and climate strategies through engagement and collaboration with value chain partners. Defining the impacts throughout the value chain and determining a strategy for addressing them are often some of the most challenging aspects of transition planning. In this stage, companies need to move from broad strokes to a detailed and quantified picture of their value chain, including its least visible and accessible parts.

Example framing business model transformation: SABIC

SABIC is a global leader in diversified chemicals, headquartered in Riyadh, Saudi Arabia. Serving customers in more than 140 countries, SABIC is one of the largest chemical manufacturers worldwide, producing a wide range of products, including chemicals, plastics, and fertilizers.

One major challenge facing SABIC and the entire chemical industry, are the high carbon emissions from steam crackers, which produce the key building blocks for various chemicals and polymers. Until today, steam crackers have been heated by using traditional energy sources, making them highly energy-intensive and a significant source of CO_2 emissions.

To address these emissions, SABIC, in partnership with BASF and Linde, signed an agreement in 2021 to pioneer the development of the world's first large-scale demonstration plant for electrically heated steam cracker furnaces at BASF's site in Ludwigshafen, Germany. BASF and SABIC provided the technology and investment for the plant and Linde was the engineering, procurement and construction partner. Additionally, under the German Federal Ministry for Economic Affairs and Climate Action "Decarbonization in Industry" funding program, the project was granted €14.8 million. In 2024, the plant successfully started up. By using electricity from renewable sources, the electrically heated furnaces have the potential to reduce scope 1 and 2 CO_2 emissions by at least 90% compared to technologies commonly used today, marking a significant breakthrough in the chemical industry's quest for sustainable production methods.

The development of a demonstration project for electrically heated steam furnace between SABIC, BASF, and Linde exemplifies the value of engaging with peers and value chain stakeholders to develop targeted solutions that align with climate transition efforts. Each company recognized the importance of developing a low-emission steam cracker and came together to sign an agreement. The companies then worked closely together from 2021 to 2024 to develop the technology and successfully engineer and construct the demonstration project. They also leveraged government funding to help reduce the cost of the project and the associated risks.

Figure 10: How can organizations begin to frame business model transformation?

Immediate actions

→ Transformation action should be considered after a thorough understanding of the resilience and weaknesses of the current business model to transition planning factors has been established.
→ Take a value lens to everything: Understand your company's cost structure and revenue streams – what really drives cost upside and downside?
→ Mapping and tracking key inputs, e.g., raw materials, including across sourcing, supply chains, and logistics, can help highlight where alternatives can be sourced, procurement strategies/policies amended, or buyer power exerted to influence positive change aligned with transition planning ambitions.
→ Develop a thorough understanding of customer segments, including demand trend drivers, changes, and uncertainties. These should be overlaid with product/service offerings to understand revenue risk and growth opportunities.
→ Consider key business model partnerships, for example, suppliers or strategic alliances, and map these to areas of impact, risk, and opportunity. It may be that you have to start small to prove viability.
→ Thoroughly evaluate dependencies, particularly uncertain policy landscapes or market conditions, to reduce future reputational risk.
→ Transformation will extend to the value chain. Also, see the value chain engagement section of this primer.

Future needs and opportunities

→ Continue to evolve risk management and strategies to include consideration of the longer-term nature of business transformation.
→ Develop standardized processes, including refining collaboration strategies and incorporating incremental actions and 'quick wins' as well as longer-term strategies to advance business model transformation.

Enhancing the disclosure infrastructure

A transparent and credible transition plan demonstrates accountability and commitment to climate, nature, and social targets and is pivotal for building trust with stakeholders, particularly regulators and investors. However, expectations of the quality and maturity of transition plans, their integration into operations, and the amount of information that is disclosed will continue to rise.

For this reason, improving transition planning disclosure, especially against comprehensive disclosure frameworks such as TPT, will be a continuous effort. The best way for companies to meet higher demands and expectations is to invest in the organizational foundation. The more sophisticated transition planning becomes, the more it will depend on high-quality inputs and smooth cross-functional collaboration. Companies should build that foundation with intent, addressing possible frictions, boosting awareness, and deciding on trade-offs between transparency and commercially sensitive information.

Figure 11: How can organizations enhance the disclosure infrastructure?

Immediate Actions

- → Disclosure preparation: Analyze transition plan disclosure framework gaps and conduct peer benchmarking to support alignment and awareness of transition plan disclosure positioning while assisting reporting compliance.
- → Develop and disclose the transition plan in accordance with the TPT disclosure framework, considering its growing prominence.
- → For resource-constrained organizations, the priority should be on meeting CSRD and/or other regulatory compliance. The recent EFRAG implementation guidance takes precedence over TPT. However, aligning with TPT standards where possible is beneficial, with the goal of working toward full alignment with TPT over time.
- → Establish the disclosure process early, particularly regarding materiality considerations and alignment with key internal stakeholders on review and sign-off, e.g., will Board approval be required?
- → Put in place a process that includes a key group of internal stakeholders equipped to judge how key uncertainties should be considered and disclosed.
- → Determine early whether the transition plan will be a standalone document or integrated into other reporting. Either way, ensuring robust connectivity between and across reporting will improve accessibility and help users.
- → Consider the transition plan a 'living document,' and the transition plan disclosure as a high-level summary of a more comprehensive or granular internal action plan and roadmap. Based on guidance from the TPT, transition plan disclosures do not need to be made annually, although progress should be reported annually.
- → Reporting controls: Ensure effective plan governance by conducting at least annual reviews of the internal transition plan strategy to track progress and update ambitions, as necessary.
- → Engage early with assurers to understand expectations and align on disclosure requirements.

Future Needs and Opportunities

- → Continually refine governance frameworks and strengthen reporting capabilities, improving the alignment of transition planning with evolving regulations and incorporating continuous review processes to guarantee the relevance and effectiveness of transition strategies.

Financial institution disclosure expectations and interests example: Lloyds Banking Group

Lloyds Banking Group (LBG) is the UK's largest financial services provider with more than 27 million customers and over 325 years' heritage across its family of brands, including Lloyds Bank, Halifax, Bank of Scotland, Scottish Widows, and Schroders, among others.

In 2023, as part of its commitments to support the transition to a more sustainable and inclusive future and in alignment with its status as a founding member of the Glasgow Financial Alliance for Net Zero (GFANZ), LBG committed to assessing the credibility of its largest clients' net-zero transition plans. LBG's approach to transition plans leverages best-in-class resources recommended in GFANZ's 2022 paper 'Real-economy Transition Plans,'16 including the TPT, Task Force on Climate-Related Financial Disclosures (TCFD), Transition Pathway Initiative (TPI), Climate Action 100+ (CA100+), and CDP.

LBG believes that aligning a transition plan to TPT's framework and its three pillars – Ambition, Action, and Accountability – can be a useful, action-focused approach for a company starting its transition journey and figuring out what to disclose. LBG has the following advice to share with organizations beginning on this journey:

→ Ambition, in practice, looks at whether a company has disclosed climate risks and opportunities and considered their integration into strategy or considered qualitative or quantitative scenario analysis.

→ For Action, a company may choose to disclose their percentage of Capex aligned to the transition (e.g., through the EU taxonomy or CDP questionnaires). The TPT also recommends consideration of historic GHG emissions performance and for emissions to be measured, verified, and reported.

→ Regarding Accountability, the TPT focuses on the governance of a transition plan. Organizations can further advance their transition plans by disclosing their membership & involvement in climate and/or nature issue organizations or coalitions or considering an internal carbon price.

→ A transition plan disclosure that considers the full range of levers at an entity's disposal increases the ability of financial institutions to support clients.

LBG also recognizes that organizations will have external dependencies that impact the credibility of their transition plans and net-zero targets, such as the policy landscape in which they operate. Lloyds encourages organizations to start on the climate transition journey now, as developing a transition plan allows a company to identify its current trajectory to net zero and take a more active approach in protecting its future success – as inevitably, the transition to net zero will touch every company.

More insights on credible climate transition plans and the challenges facing companies can be found in LBG's report 'Credible Transition Plans: Reporting vs Reality,'17 which contains findings from a survey of executives and investors at large UK companies on credible climate transition plans. A GFANZ report on Case Studies on Transition Finance and Decarbonization Contribution Methodologies18 provides more information on LBG's approach to assessing transition plans, other financial institutions, and decarbonization methodologies.

Moving from disclosure focus to dynamic transition planning and implementation

Developing a consistent and credible transition plan is a challenging task. However, when done correctly, it serves as a foundation for setting up a dynamic process that delivers multiple long-term benefits. Companies should not treat a transition plan as a point-in-time disclosure but as a crucial first step in the overarching process of integrating climate transition planning into their operations and business/commercial strategy, including annual budgeting.

Moving from a static transition plan to dynamic transition planning won't happen immediately. It will take substantial organizational change and challenge many default ways of working. It will undoubtedly take much trial and error to get it right, but the rewards are worth it, and regulatory trends and investors demand it.

Embedding Just Transition in corporate climate action plans

As companies start to plan for a net zero economy, they have a direct role to play in ensuring that the transition is "just," aspiring to leave no one behind and integrate sustainable development (as captured in the UN Sustainable Development Goals) in the plan. Four interrelated and interdependent groups face just transition impacts:

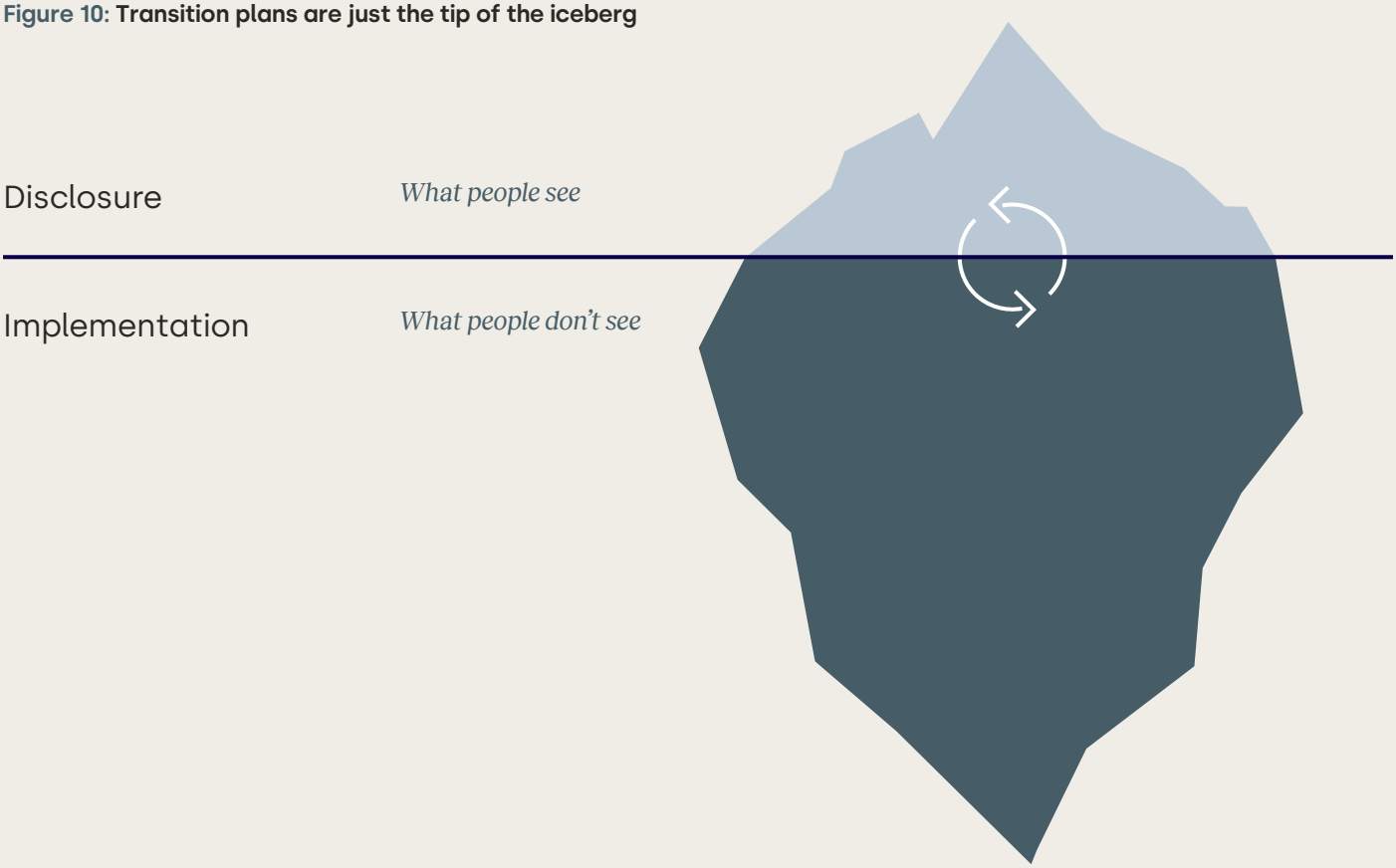
1. Workforce, which captures current and future skills demand.
2. Community, which includes impacts on host communities and support for communities to gain opportunities.
3. Consumers & customers, which focuses on impacts on the downstream, and
4. Nature, which involved adverse and positive impacts on nature, especially ecosystem services.

These groups will be impacted as companies decarbonize their operations and value chains. In order to successfully incorporate just transition considerations in climate transition planning, companies should:

1. Ensure Board and C-suite approval of a plan that includes social and human rights impacts.
2. Involve a multi-disciplinary team.
3. Embed transition planning in the business planning process.
4. Monitor, adapt, and report on progress.
5. Engage with the right stakeholders, including business partners and vulnerable groups.

See ERM's **Embedding Just Transition into Corporate Climate Action Strategies** for more advice.

Figure 10: Transition plans are just the tip of the iceberg



Priority implementation areas *for early success*

04.

04. Priority implementation areas for early success

Laying and improving the foundation for transition planning is essential and takes continuous effort. However, companies can't wait until it is perfect; implementation and foundation-building must evolve simultaneously. No matter what transition planning stage companies are in, they all share one challenge: they are constrained by limited resources such as time, budget, and workforce. Prioritization is key to success. Unless they clearly define priority areas for transition planning and disclosures, companies will not reap the full benefits of their investment.

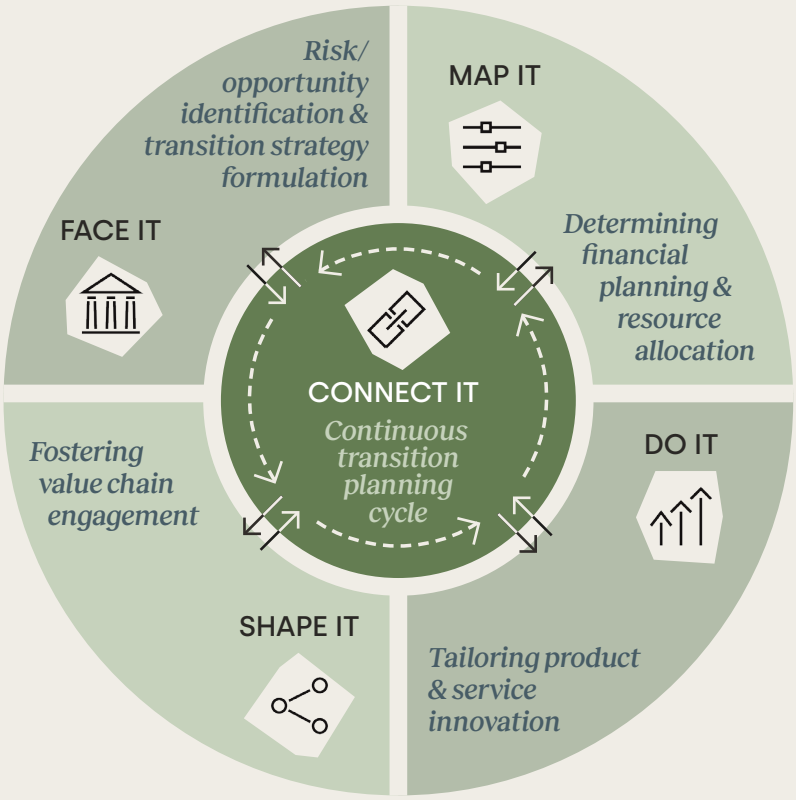
Four priority areas are essential for every company to achieve early success in the transition planning journey:

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

By focusing their implementation on these priority areas, companies can achieve resource efficiency, drive momentum, and show early wins that build stakeholder confidence and internal and external support for broader transformation.

While these four focus areas are most relevant in the early stages of transition planning, they never lose their relevance, regardless of where the company is on the maturity curve. Companies must continuously invest in, revisit, and recalibrate their actions in all four areas and connect them. This will ensure transition planning progress and provide companies with an anchor in a world of increasing sustainable pressures and change.[19]

Figure 13: Transition planning cycle



Risk, opportunity, and strategy

Businesses need to thoroughly evaluate their exposure to climate change, nature loss, and social issues, which can present both risks and opportunities. The top priorities for transition planning will flow from this deep understanding and will determine how limited resources are most effectively spent. To gauge exposure to climate, nature, and social issues, a company needs to assess both physical risks – such as floods, crop failures, or community protests – and the transition risks – the commercial risks of the transition to a just low-carbon, nature-positive economy – on their operations and throughout the value chain.

This may seem challenging, but to be genuinely credible, priority selection for transition planning needs to flow from a system-level approach to assessing risk and opportunity exposures and, from there, cascade down to the entity level. With limited resources, it's vital to go through this process to pick the transition levers that will most effectively achieve the strategic ambitions of the transition plan: achieving just net-zero and nature-positive targets to reduce climate and nature impacts and to manage exposures to externalities.

Understanding the potential financial impact of climate, nature, and social risks and opportunities is critical for companies to accurately assess their financial performance and long-term viability. Without this understanding, companies fly blind, and transition planning will miss its ultimate goal: generating decision-critical information that can inform financial planning and resource allocation. Companies consider this one of the biggest hurdles toward effective transition planning, as will be discussed in more detail later in this chapter. Integrating scenario analysis into the transition planning cycle is a valuable way to help overcome it.

Figure 14: How should my organization consider risk, opportunity, and strategy?

→ Use scenario analysis to understand the possible velocity and scale of risks, and opportunities. This will inform decisions around timing and resource requirements for mitigation or other strategic actions, such as product innovation for lower embodied carbon.
→ Consider financial information and sensitivity analyses ('financial quantification')20 in climate scenario analysis to enhance the assessment of climate-related risks and opportunities. Quantitative financial scenario analysis can also be used to stress test the resilience of future business model transformation choices.
→ Undertake scenario analysis and/or strategy resilience testing of the transition plan itself. Analysis should be at the level of granularity of product and service offerings and key areas of business model exposure to climate impacts, risks, and opportunities, such as physical risk adaptations.
→ Transition levers should be developed to address material areas of risk and opportunity. Options for actions and tactics associated with transition lever achievement.
→ A clear view of the timing and scheduling of actions is crucial for ambitious yet achievable transition planning. Identify practical short-, medium--, and long-term actions, ensuring limited resources are allocated to initiatives that offer the highest impact and align with strategic goals.
→ Establish a strategic framework that assesses transition levers across multiple themes, e.g., level of effort, capabilities, cost/resource requirements, timing, risk mitigation, potential for unintended consequences, and dependencies. This will help to ensure transition levers and related actions and tactics are considered consistently so strategic decision-making has a lower risk of blind spots.

Financial planning and resourcing

Many surveyed companies pointed to financial planning as the most complex issue of the transition planning process. And for a good reason: many areas crucial for effective transition planning are hard to quantify. There are several sticky challenges to incorporating transition planning into budgeting/financial planning over the short, medium, and long term.

- Many climate, nature, and social issues are poorly understood and/or challenging to measure in financial or investment terms due to inherent uncertainties and difficulty connecting them to statement line items, assets, or investments.
- Transition plan measures often compete with other commercial priorities, especially since most people making budget decisions at present are usually not involved in the transition planning process.
- Organizational financial or budget planning cycles are too short (1 to 3 years) and overlook the need for longer-term preparedness.

Without overcoming the current disconnect between financial and transition planning, positive transition outcomes and meaningful transition planning disclosures will not be possible. Overcoming these challenges will also help companies prepare for regulations like ISSB and CSRD. Both require disclosure around the financial impacts of sustainability exposure and efforts, for example, financial position, performance, and cash flows. An effective transition planning process should include modeling transition costs, setting and tracking emission reduction and environmental targets, identifying necessary technologies, and optimizing the financial impact.

Risk, opportunity, and strategy example: Port of Rotterdam

The Port of Rotterdam, Europe's largest seaport, is actively engaged in several sustainability initiatives and transitions to reduce its environmental impact and contribute to the broader energy transition. As a critical hub for global trade, the port has taken a leadership role in developing innovative solutions to meet both local and international climate goals.

The company realizes its port infrastructure and clients face physical impacts from climate change, and a multidisciplinary team evaluates the medium- and long-term consequences. The consequences and the need for mitigating action are prioritized based on their impact on transport flows and the port's core tasks. The team's approach also recognizes that greenhouse gas emissions must be reduced to avoid the worse consequences of climate change.

The Port is committed to transitioning shipping and logistics to more sustainable practices, with an emphasis on reducing emissions from vessels and port operations. Key initiatives include:

- **Green shipping corridors:** The Port of Rotterdam works with global ports, shipping companies, and energy providers to create the first-generation green shipping corridors where vessels run on low-carbon fuels like green hydrogen, ammonia, or methanol.
- **Green electricity for ships in the port:** together with terminal operators, electricity providers, grid operators, and ship owners, the Port of Rotterdam realizes the infrastructure and policies needed to provide ships at a berth with green electricity.
- **Zero-emission barges and trucks:** Promoting the use of zero-emission inland barges and electric trucks for transporting goods, reducing emissions associated with logistics within Europe.
- **Smart shipping technologies:** In tandem with operational procedures in the logistic chain, the Port integrates digital solutions to optimize ship traffic and reduce fuel consumption through real-time tracking and AI-based navigation tools.

The Port has also implemented several **incentive pricing strategies** to promote sustainable shipping and encourage the adoption of cleaner, low-emission technologies among shipping companies to reduce the environmental impact of port operations and maritime transport, aligning with broader sustainability goals. Incentives include:

1. Reduced port fees for shipping companies that operate zero-emission vessels along green shipping corridors.
2. From 2025, ships with superior energy efficiency will pay lower port dues, encouraging operators to improve the efficiency of their fleet.
3. The Port of Rotterdam supports the Zero Emission Maritime Buyer Alliance by providing a substantial discount on port dues for ships within this alliance bunkering sustainable fuels in Rotterdam.
4. The port and Municipality of Rotterdam provide terminal operators with financial incentives to accelerate shore power installation to lower CO_2 emissions of docked ships.

Through the **World Ports Climate Action Program** and other programs, the Port of Rotterdam collaborates with other ports on consistent incentives and policies to encourage sustainable practices across global shipping routes. Shipping companies participating in these joint initiatives can benefit from funding opportunities and harmonized port dues discounts across multiple global ports.

Figure 15: How should my organization integrate transition planning into financial planning?

→ Calculate the overall emissions abatement or environmental improvement capacity and cost requirements (e.g., Capital Expenditure, Operational Expenditure, and Return on Investment) for selected transition levers. The lower the costs, the cheaper it is to reduce emissions or improve environmental outcomes, and therefore, the more attractive the action.
→ Utilize available tools and approaches, such as Marginal Abatement Cost Curve (MACC) analysis, to identify the lowest-cost emission reduction measures with the highest greenhouse emissions abatement potential and use this process to prioritize investments in greenhouse gas emission mitigation.
→ Quantify risks and opportunities associated with the financial impact of climate-related issues and conduct sensitivity analysis to evaluate how changes in variables such as carbon taxes, policy incentives, or energy costs will impact results.
→ Integrate the cost of action into the prioritization framework so the 'cost of the plan' is understood and can be aligned with budget availability and other constraints (e.g., internal capacity, external dependencies). Understanding the cost of inaction is, in some cases, just as important.
→ Define metrics and targets for monitoring and managing the performance of critical elements of the transition plan (e.g., low-carbon product revenues or avoided land remediation costs).
→ Integrate climate- and nature-related metrics into corporate finance methods (e.g., ROCE, IRR, NPV) for investment appraisal criteria.
→ Evaluate the current and potential effects of climate change and nature loss on financial statements by linking impacts, risks, and opportunities to specific financial statement line items (e.g., impairment and provisions for balance sheet, profit for income statement, etc.).

Financial planning and resourcing example: CLP Holdings Limited

CLP is one of the largest investor-owned power companies in the Asia-Pacific region, with a diverse portfolio that spans power generation, transmission and distribution, and retail across Hong Kong, Mainland China, Australia, India, Taiwan Region, and Thailand.

The company's Climate Vision 2050 establishes its commitment to reaching net-zero GHG emissions by 2050 across its value chain, along with interim emissions goals and a goal of phasing out coal generation before 2040. With most of the company's emissions coming from the generation of electricity (72 percent), the company is focused on decarbonizing its portfolio by retiring its fleet of coal plants and growing the use of non-carbon energy.

A key feature of CLP's Climate Vision 2050 plan is integrating decarbonization into its business strategy, ensuring that its financial planning, investment decisions, and risk management frameworks are aligned with its climate goals. The company reviews its decarbonization targets and transition plan at least every three years.

These reviews consider various factors, including the current state of technology, market conditions in its key markets, the targets and plans of its subsidiaries and joint ventures, and near-term capital allocation. CLP tracks the effectiveness of its efforts by analyzing metrics such as the greenhouse gas emissions intensity of its portfolio and its capital allocation. It also considers its climate-related physical and transition risks and opportunities and assesses the implied temperature rise associated with its decarbonization trajectory.

CLP aligns its transition planning with its business planning by ensuring its projected GHG emissions trajectory is consistent with reasonable assumptions about the future state of its business. Its assumptions include power demand projections, capacity of plants, and GHG emissions associated with assets, and that assets will run for their operational or contractual life unless there is an agreement with authorities for early closure or reduced use.

Expectations from communities and investors, as well as government policy, inform the company's strategy. Furthermore, CLP develops asset-specific plans to ensure a "just transition" and provide support for stakeholders impacted by business changes or restructuring as appropriate.

CLP's experience shows the importance of incorporating climate goals into the business planning process, particularly regarding long-lived assets like CLP's fleet of power plants. Climate targets and plans and the allocation of resources to implement these goals should be updated regularly to ensure alignment with the latest market, policy, and technological developments. Engaging with employees and external stakeholders to inform planning is also essential. Quantifying costs, opportunities, and risks and monitoring progress against targets and plans are valuable tools for integrating climate goals into financial planning and resourcing.

Products and services innovation

In a corporate setting, sustained transition planning efforts ultimately will only survive if the commercial upside, through new products and markets, and avoiding the commercial downsides, such as fines, loss of market share, or climate change-induced disruptions, are larger than the costs. So, getting the flywheel of low-carbon products and services development started is crucial to underpin the long-term viability of transition planning.

However, pivoting product and/or service portfolios to lower-carbon solutions requires significant investment, R&D, time, skills, and, in some cases, technologies that are not yet mature. Identifying the product and service opportunities the business transformation generates will be challenging. It may be even harder to find the budget to invest in yet unproven product and service innovation at the expense of today's profitability.

By default, low-carbon product and service development will involve some leap of faith and will always run into the short-term vs long-term dilemma. That's why it is doubly important that companies have a very clear picture of the climate-related risks and issues at stake so they can build the investment case in low-carbon products and services of tomorrow. Risk and opportunity assessments also provide useful insights on where to start, either by pointing to the most promising commercial opportunities to explore or identifying which existing products and services are most exposed and need a low-carbon alternative soon.

Figure 16: How should my organization leverage business transformation to tailor products and services innovation?

→ Integrate helpful information on climate impacts of products (e.g., Environmental Product Declaration or Life Cycle Assessment) into business practice and operations. These will become an essential source of information to drive the development of alternative products and services.
→ Integrate consideration of the environmental impacts of materials into the R&D and product design phase.
→ Leverage climate-related scenario analysis and financial impact analysis to prioritize products and services that are profit drivers, have the potential to become significant profit drivers or have a high risk of faltering in a low-carbon economy.
→ Finance technologies that solve and enable action on climate change, such as renewable energies and more efficient processes.
→ Focus business development on new markets and business areas for low-carbon products and services. This could include organic growth, acquisitions, or joint ventures.
→ Prioritize internal engagement, awareness, and collaboration to understand the priorities of relevant stakeholders to foster an innovative culture and support the development of innovative products and services.
→ Consider external factors such as customer and market demand and establish robust processes for dealing with uncertainties.

Products and services innovation example: Tarmac, a CRH company

CRH is the leading provider of building materials solutions. Employing 78,500 people at 3,390 operating locations in 28 countries, CRH has market leadership positions in both North America and Europe. As the essential partner for transportation and critical utility infrastructure projects, complex non-residential construction, and outdoor living solutions, CRH's unique offering of materials, products, and value-added services helps to deliver a more resilient and sustainable built environment.

Achieving CRH's ambition to be a net-zero business by 2050 and to meet its sector-leading target to reduce absolute CO_2-equivalent emissions by 30 percent by 2030 based on a 2021 base year requires strategic planning and effective collaboration with industry leaders to deliver integrated solutions.

Tarmac, a CRH company based in the UK, brought together local councils and international partners, including Shell, Volvo CE, and Wirtgen, to deploy advanced technologies to reduce the carbon footprint of three road infrastructure projects by up to 80 percent.

The project, an industry-first, used innovative asphalt with warm mix formulations, high proportions of recycled asphalt pavement (RAP) from old road surfaces, and a new biogenic binder from Shell. Together with 100 percent renewable electricity and low-carbon fuels for manufacturing, transportation, and construction and fully electric and hybrid prototype mobile plants and vehicles, these delivered CO_2 savings of up to 80 percent compared to projects using traditional methods.

Value chain engagement priorities

For effective transition planning, value chain engagement is crucial because, in most cases, Scope 3 emissions represent the largest portion of a business's carbon footprint. Achieving a successful transition requires companies to transform their product and service portfolio and reimagine how these offerings are designed, produced, sold, managed through the lifecycle, and ultimately recovered or disposed of at end-of-life.

Collaboration with supply chain partners and leveraging interconnectivity take a holistic and proactive approach. While companies are much more aware of the importance of active engagement throughout the supply chain, more must be done. For transition planning, companies must be very intentional, prioritizing and engaging the most critical value chain partners and quantifying results.

On policy, another important factor in the success of transition planning, more mature organizations are now disclosing engagement efforts and strategies, e.g., industry associations or policy advocacy positions. Still, most companies insufficiently understand the policy dependencies that can make or break their strategic transition planning ambitions and how they can engage policymakers to steer policy in the desired direction.

Figure 17: How should my organization engage with our value chain?

→ Map key value chain stakeholders and their emissions profiles. Understand stakeholder expectations and foster collaborative actions for emissions reductions that align with transition planning actions.
→ Do less but be more purposeful: value chain engagement should follow the same prioritization approach as other transition planning areas. Ensure engagement is linked to the strategic ambition of transition planning and has measurable outcomes.w
→ Prioritize action in the supply chain. Key suppliers for key inputs are a priority. Engagement should first seek to understand supplier contexts and ambitions. Procurement strategy/policy amendments should be ambitious and pragmatic.
→ Customer and market engagement should consider pricing points, willingness to pay, and competitor/peer dynamics. Regular market intelligence and engagement with key customers are essential. Moving together will be better than moving apart.
→ Map your policy dependencies and create a strategic approach to engage policymakers. Stop lobbying efforts that conflict with your transition planning strategy.
→ Engage responsibly with government and policymakers. This should be purposeful and focused on material policy dependencies that have been identified as part of transition planning.
→ Establish the right partnerships with suppliers, industry partners, customers, and broader stakeholders, including government, to overcome barriers to transition and strengthen enablers.

Value chain engagement example: SABIC

SABIC is a global leader in diversified chemicals, headquartered in Riyadh, Saudi Arabia. Serving customers in more than 140 countries, SABIC is one of the largest chemical manufacturers worldwide.

Plastics have vital uses across many areas of life, from food packaging, transportation and clean energy, to housing and healthcare. The improper disposal of plastics however has given rise to plastic pollution. Some plastics are more difficult to recycle, particularly if it used in a context that is vital to human safety and where there are high standards around safety and reliability.

Through multiple high-profile collaborations, SABIC is promoting a circular economy for plastic, particularly for stringent uses like food packaging and medical supplies. For instance, SABIC teamed up with Heinz, Tesco, and Berry Global in a project where flexible plastic packaging is collected from Tesco grocery stores for recycling. SABIC converts the collected plastic packaging into recycled oils and uses this as feedstock to produce certified circular polypropylene from its TRUCIRCLE™ portfolio, with the same quality as virgin plastic resin. Out of this resin, packaging producer Berry makes the Beanz Snap Pots, which are sent to Heinz for filling and delivery to Tesco.

Tesco and SABIC have also partnered on recycling used plastics for cheese packaging, and SABIC is working with Mars and Landbell to promote a circular economy for Mars KIND® primary healthy snack bar brand. Flexible plastics used to package food have until now been difficult to recycle, so this represents an important milestone in closing the loop and promoting a more circular economy.

SABIC is also taking steps to promote a circular economy for plastic medical waste. The company has collaborated with the dialysis department at Jessa Hospital in Belgium to convert medical plastic waste into feedstock to produce medical quality TRUCIRCLE™ polymers with the same performance and safety as virgin-plastic medical grade polymers. In another project, SABIC, the Fraunhofer Institute UMSICHT, and P&G worked together on recycling face masks. Face masks used by P&G employees were collected, Fraunhofer UMSICHT converted the masks to an oil which SABIC used as a feedstock to produce a polymer, which P&G then processed back into a fiber material.

Each of SABIC's partnerships requires close collaboration with multiple value chain partners in order to successfully recycle plastics in the medical and food contexts, which must meet high quality standards in order to protect human health. Value chain engagements have enabled the company to make important progress on closing the loop for these plastics, creating a more sustainable system.

Concluding *remarks*

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Investing time, capacity, and money into transition planning will help companies overcome the biggest bottleneck to integrating sustainability into business: translating corporate climate goals into effective operational and commercial action. It won't be easy, but the various examples in this primer prove that intentional action on transition planning carries significant benefits for business. Companies are avoiding risks, identifying new revenue opportunities, and better meeting the expectations of regulators and investors.

Companies get pulled in many directions, from geopolitical events and regulations to supply chain troubles. And since many transition-planning-related specifics are still uncertain, it can be tempting for companies to put off thinking about it. But uncertainty doesn't rule out urgency. And it's clear that no matter the loose ends, regulators, investors, and other stakeholders want companies to make progress on transition planning fast.

Transition planning is a process that evolves over many stages. The most important part is to start without getting paralyzed by its complexity. Companies should see it as an ongoing and iterative process, where mistakes will be made, and gaps in data and capacity will be filled up over time.

Companies are also not alone on the learning curve: investors and regulators are right there with them, increasingly demanding corporate transition plans while simultaneously figuring out how to interpret them and what transition planning standards should look like.

However, the fact that transition planning is developing doesn't mean companies have the luxury of sitting still. The demands and expectations are real and will progressively increase as transition planning standards evolve and the sophistication of investors and regulators grows. Despite the differences, there is enough consistency across disclosure standards and regulations for companies to understand the most crucial transition plan elements to make a start on.

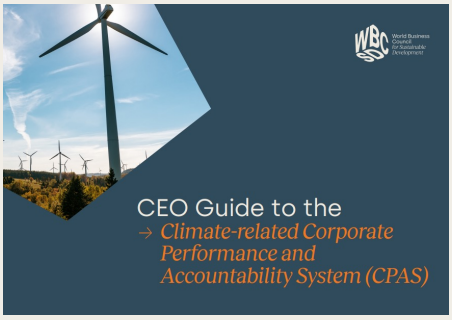
Hopefully, the recommendations in this primer will help companies more confidently take their early or next steps on the transitional planning journey and learn and modify along the way. Most importantly, companies need to start building transition planning capacity today to be prepared for the risks and opportunities of a low-carbon future. Anything else is a business risk waiting to happen.

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

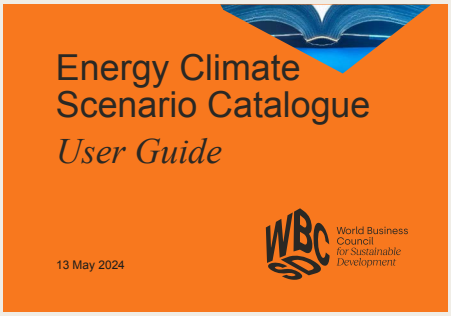
Climate-related Financial Impact Guide



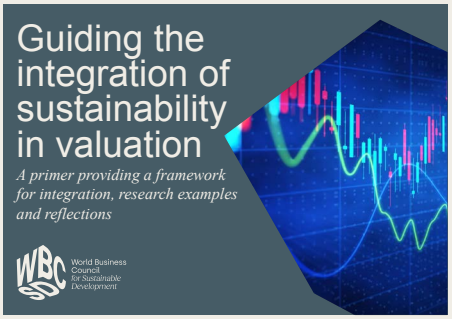
CEO Guide to the Climate-related Corporate Performance and Accountability System (CPAS)

Building the business case for sustainability, July 2024

Embedding Just Transition into Corporate Climate Action Strategies



WBCSD Climate Scenario Analysis Catalogue



Guiding the integration of sustainability in valuation, June 2024

Integrated Performance Management Framework: Driving strategy, engaging workforces, November 2024

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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)

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