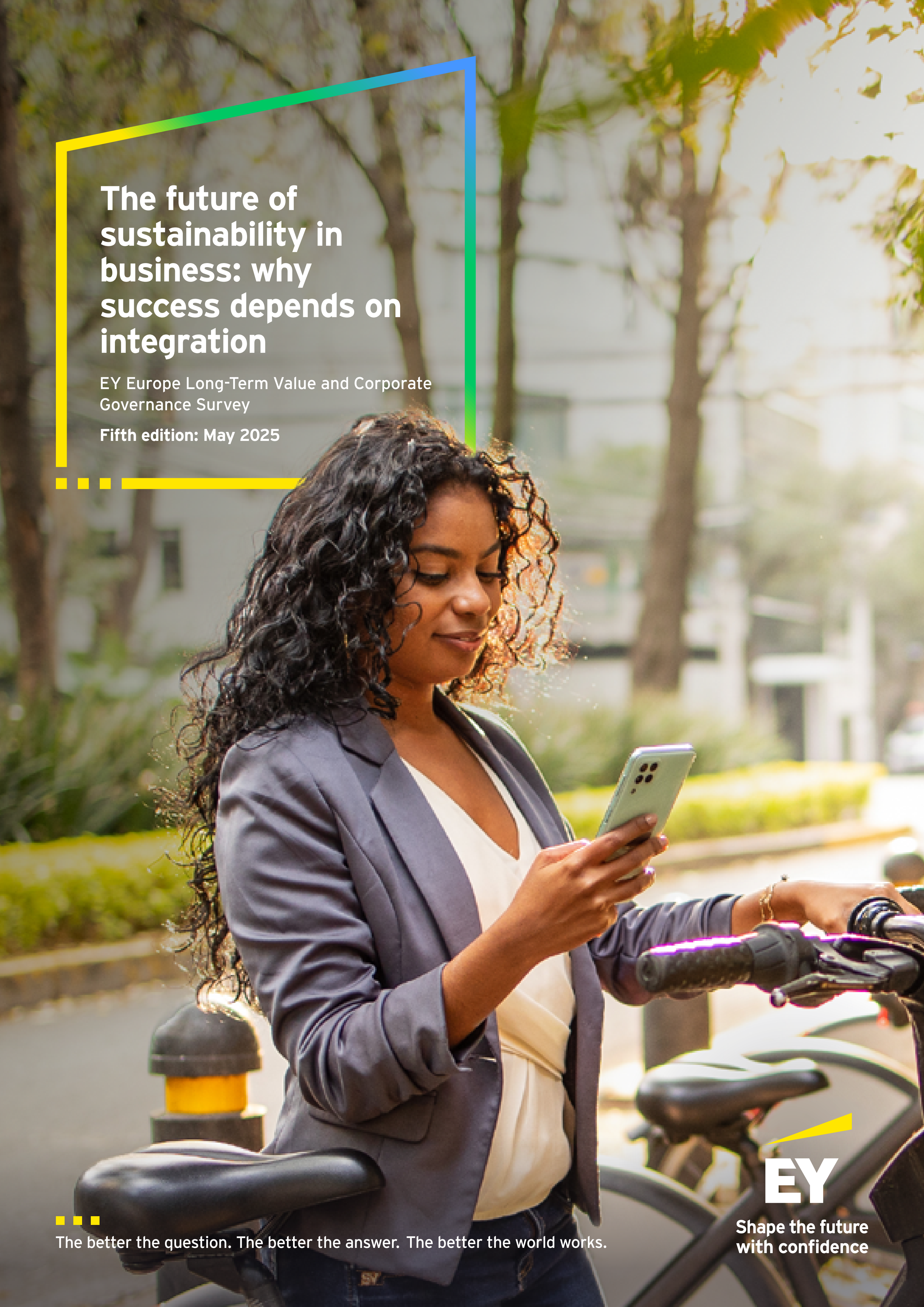


The future of sustainability in business: why success depends on integration

EY Europe Long-Term Value and Corporate Governance Survey

Fifth edition: May 2025

The better the question. The better the answer. The better the world works.

EY

Shape the future with confidence

The future of sustainability in business: why success depends on integration

The most effective companies embed sustainability into their business by default. But most don't. It's time to go all in on the transition.

Life is full of examples of how working together is better than working separately. The star player can only win if they work as part of the team; the odd trip to the gym won't count for much unless it's part of a broader healthy lifestyle, and a symphony sounds best when all instruments play together in harmony.

Despite these lessons, companies are still keeping sustainability separate from their business. And that's a mistake. New research from EY shows that those who embed sustainability into their overall business strategy enjoy better business outcomes than those who treat sustainability as a standalone project:

- They are 40% more confident in their business outlook for the next 12 months.
- Their boards are 1.5 times more effective in achieving sustainability objectives.

In the climate of greenhushing, driven by renewed support for fossil fuels in some parts of the world, demonstrating sustainability's tangible business benefits has never been more important. Sustainability has been linked to improved financial performance thanks to reduced risk, new markets and increased resilience[1]. But by tackling the issue as a standalone project, many businesses risk losing out.

Our latest survey of European businesses shows that companies and boards can enjoy improved performance by properly integrating their sustainability strategies into their business. And the survey identifies a leading group of Sustainability Integrators that have already done so. Find out how to emulate their success.

What you can do to embed sustainability into your business

1. Ensure that the board and management are aligned on how sustainability is integrated into strategy.
2. Stop thinking sustainability is someone else's job.
3. Make sure every function understands the commercial benefits of sustainability.
4. Encourage integration by getting the right finance in place.
5. Invest in technology programs that support the delivery of your integrated strategy.

[1] https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/climate-change-sustainability-services/documents/ey-gl-beyond-sustainability-as-usual-11-2024.pdf

The heat is on: European businesses can't avoid sustainability

First, let's look at the context in which European businesses are operating. They're under pressure to be more sustainable so they can deliver better business and customer outcomes. The new US administration may have shifted the conversation globally, but sustainability still carries weight in Europe. It remains a keystone of the EU's policy agenda to contribute to competitiveness, decarbonization and security.

Stakeholders are putting pressure on boards and management to make sure that European companies focus on sustainability issues:

- Ninety-one per cent of the companies in our research are feeling pressure from investors to accelerate their sustainable business practices.
- Seventy-eight per cent are feeling it from activists.

Fiona Watson, Vice President, Corporate Performance & Accountability at the World Business Council for Sustainable Development (WBCSD), agrees that investors are placing pressure on businesses to become more sustainable. "Investors increasingly recognize the value that can be realized through integrating sustainability into decision-making," Watson says. "This provides a mandate to continue the challenge to become more sustainable."

And when companies are getting the same message from multiple angles, they can't ignore it – it's too much of a risk. More than a third of companies (39%) say they have suffered a reputation-damaging backlash in the press or on social media because they've not done enough on sustainability standards. This number falls to only 6% of those who are integrating sustainability into their wider business strategy.

There's also a risk of attracting activists who engage in disruptive behaviours to get news headlines. More than a quarter (29%) of companies have already suffered this kind of backlash because of perceived shortcomings on sustainability issues.

According to Gill Lofts, EY Global Financial Services Sustainability Leader, the pressure companies feel to be more sustainable has changed. "Financial institutions are taking a much more commercial approach to sustainability," says Lofts, referring to the current economic and geopolitical context. "The focus is on managing risks, business resilience and maximizing revenues. Investing in sustainability can be a slow, risky and complex process for financial institutions and so they are increasingly linking transition transformation to the commercial realities of running the business."

Sustainable business is better business

Investors are likely to push boards and company management to make more sustainable decisions because such practices closely correlate with better business outcomes. In our research, companies that have begun integrating sustainability into their business told us that they are feeling the following benefits:

- 69% of companies have a better impact on broader society
- 68% have better employee recruitment and retention
- 63% enjoy an enhanced brand
- 43% see better innovation in new products and services

"Those with the most sustainable approach will be most profitable," says Kai Andrejewski, Senior Partner Agora Strategy and former CFO of Sixt, who now holds a range of board roles.

> "Those with the most sustainable approach will be most profitable.
>
> **Kai Andrejewski**
>
> Senior Partner Agora Strategy and former CFO of Sixt, who now holds a range of board roles.

Sustainability and business should work together, but it's not happening

The pressure on companies is real, and they are trying to respond. They are working on three areas:

1. **Compliance**
   They are trying to comply with sustainability regulations and laws: 65% of businesses now believe they have an advanced understanding of sustainability regulations, and 59% rate themselves as being advanced in their ability to identify the risks and opportunities of those regulations.
2. **Investments**
   They are investing in technologies and innovations as part of their sustainability efforts: Renewable energy, supply chain transparency technology, green technologies and social-impact technologies are currently the biggest investments.
3. **Operations**
   They are making operational improvements to try to integrate sustainability into their business. For instance, they are focusing on green product design, the circular economy and supply chain collaboration to become more sustainable across their business.

But these are just baby steps. WBCSD's Fiona Watson explains that although these initial sustainability efforts are good, businesses must do more. "The reality is, it's not as simple as just setting high-level ambition statements and mandating a few teams to go off and work on isolated initiatives," says Watson. "The most successful initiatives are going to be business initiatives that really integrate sustainability criteria into core business functions and decisions, such as operations, finance, and risk. It's not going to be business versus sustainability anymore."

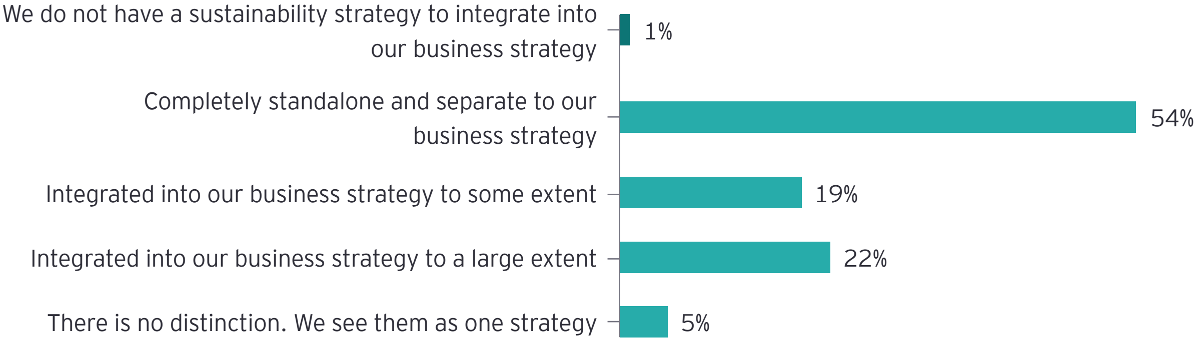
Watson is right, but this isn't happening. Companies are tackling sustainability in isolation rather than integrating it into their business. The majority of companies (55%) keep their sustainability strategy completely separate from their business – or don't even have a strategy. And only 5% say their sustainability strategies are fully integrated into their wider business. Sustainability is being siloed[2].

[2] https://www.ey.com/en_gl/board-matters/board-cso-cfo-dynamic-for-sustainability

For most European businesses, sustainability is siloed

The lack of integration between the sustainability strategy and business strategy is the same across the board – most sectors are in the same position, with only financial services slightly ahead of the rest.

How would you describe the level of integration between your business strategy and your sustainability strategy?



Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents:200)*

Sustainability stands alone – we must act now

One reason sustainability is getting sidetracked is that it seems to be struggling to build its profile within businesses. Fewer than one in five companies (18%) say their sustainability strategy focuses on long-term issues, and only 19% say it aligns with their wider business purpose.

What's more, the majority of companies (57%) say that if they need to make cuts, sustainability initiatives are more likely to be wound up than business initiatives. This tallies with the fact that 39% of companies believe sustainability has always been – and remains – a lower priority than commercial objectives.

Tellingly, companies that integrate their sustainability plans into their business don't subscribe to these views – only 2% of them believe sustainability is a lower priority than commercial objectives, and only 4% would wind down sustainability initiatives before commercial ones if business conditions worsened.

It is these companies that must be followed.

Board member Kai Andrejewski believes that proper integration goes hand in hand with financial benefits. "I'm really convinced that we have to change the way we do things now," he says. "The companies that will bridge the gap between what is entrepreneurially possible and what is environmentally needed and responsible will be the companies that are most successful."

And EY's Sustainable Value Study supports this assertion – the research shows that organisations that prioritise sustainability are 1.8 times more likely to report higher-than-expected financial value from their initiatives[3].

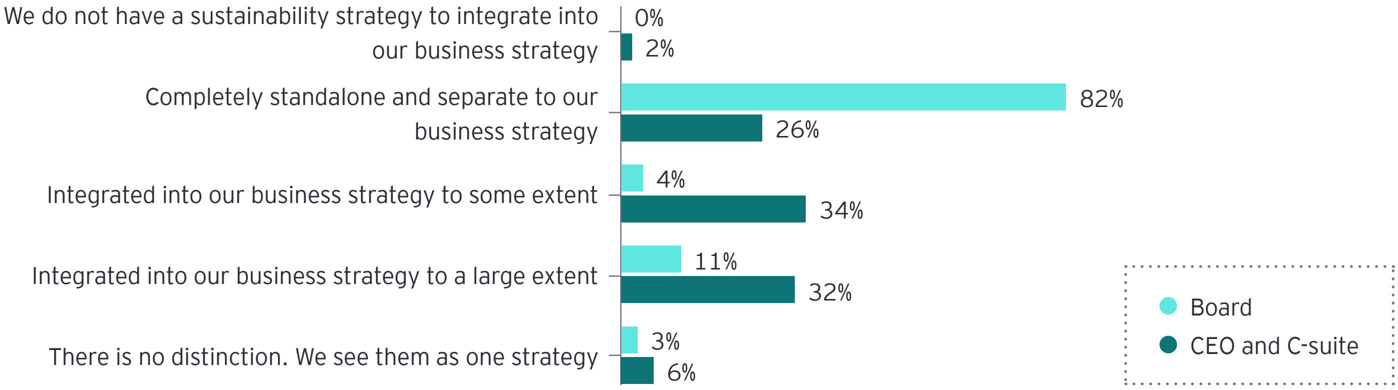
[3] https://www.ey.com/en_uk/insights/sustainability/how-can-we-accelerate-climate-action

The board and management think differently about sustainability

Our data shows that boards and senior management teams think about sustainability very differently. This could be one reason why sustainability is tackled separately within the broader business.

When they look at their sustainability strategies, boards and management teams see two different things

How would you describe the level of integration between your business strategy and your sustainability strategy?



Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents:200)*

The vast majority of board members (82%) say their sustainability strategies are completely standalone. But only a quarter of senior leaders (CEO and C-suite) agree – they're more likely to think that sustainability is embedded in the overall business.

The differences don't stop there: 81% of boards say that sustainability initiatives are the first to be cut when times are hard, compared with only a third (33%) of senior leaders. And boards are more likely than senior leaders to prioritise commercial objectives over sustainability.

The mismatch here is significant and could be due to a range of factors at different companies. But the advice is the same: Boards and management teams must have an honest and open conversation to ensure they align on both short-term market changes and the long-term vision.

Boards and management teams must focus on the long term together and continually monitor market conditions.

EY Global Sustainability Leader – Clients & Industries, Gerard Gallagher says that to see the value in sustainability the board must think more long term. "Sustainability cannot remain a siloed initiative; it must be recognized as a critical pathway for thriving businesses."

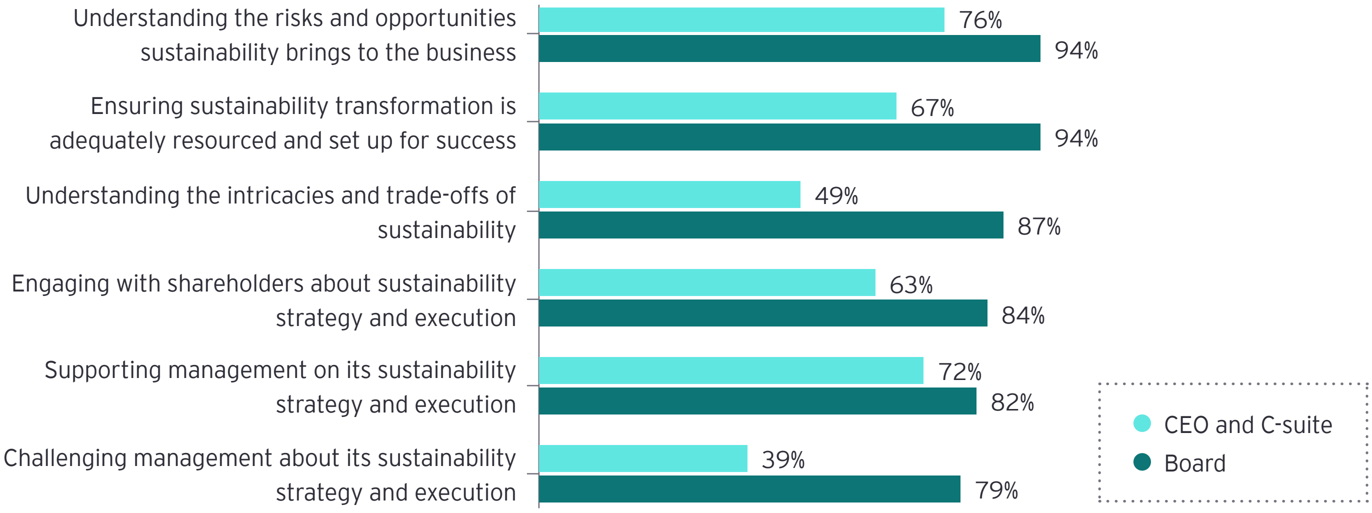
Boards and senior leaders also disagree about whether the board is effective in advancing the sustainability agenda.

The gap between boards' and senior leaders' views on sustainability is notable. But the differences between these two groups' perceptions of each other are even more startling. Boards have a much higher opinion of themselves when it comes to their approach to sustainability:

- 87% of board members say they're effective at understanding the intricacies and trade-offs of sustainability, but only 49% of senior management agree.
- 94% of board members say they understand the opportunities and risks sustainability brings to the business, but only 76% of senior managers agree.

Boards rate themselves as effective in sustainability activities, but management rates them less favorably

How effective do you feel your board is in the following areas?



Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents: 200)*

This suggests that management teams think boards could do more to support them with their sustainability strategy and execution.

This mismatch could be why 80% of investors say companies are failing to articulate the rationale for long-term sustainability investments, according to EY's Global Corporate Reporting and Institutional Investor Survey.

[4] https://www.ey.com/en_gl/insights/climate-change-sustainability-services/how-can-better-sustainability-reporting-mobilize-companies-and-capital#:~:text=80%25%20of%20investors%20surveyed%20say,them%20to%20evaluate%20the%20investment

The evidence: Fully integrating sustainability makes business sense

Most companies (55%) see sustainability as something separate from their commercial business, and boards and CEOs are misaligned on this issue. Their efforts will not be effective unless they close these gaps.

A small group of leading companies has done just that. Their sustainability strategies are deeply embedded within the business, with leaders at all levels aligned. This group represents 27% of the businesses in our survey, and we call them Sustainability Integrators.

Compared to the rest – those with less alignment between sustainability and their business – the Sustainability Integrators:

- Are 40% more confident in their business outlook for the next 12 months
- Have boards that are 1.5 times more effective in achieving sustainability objectives

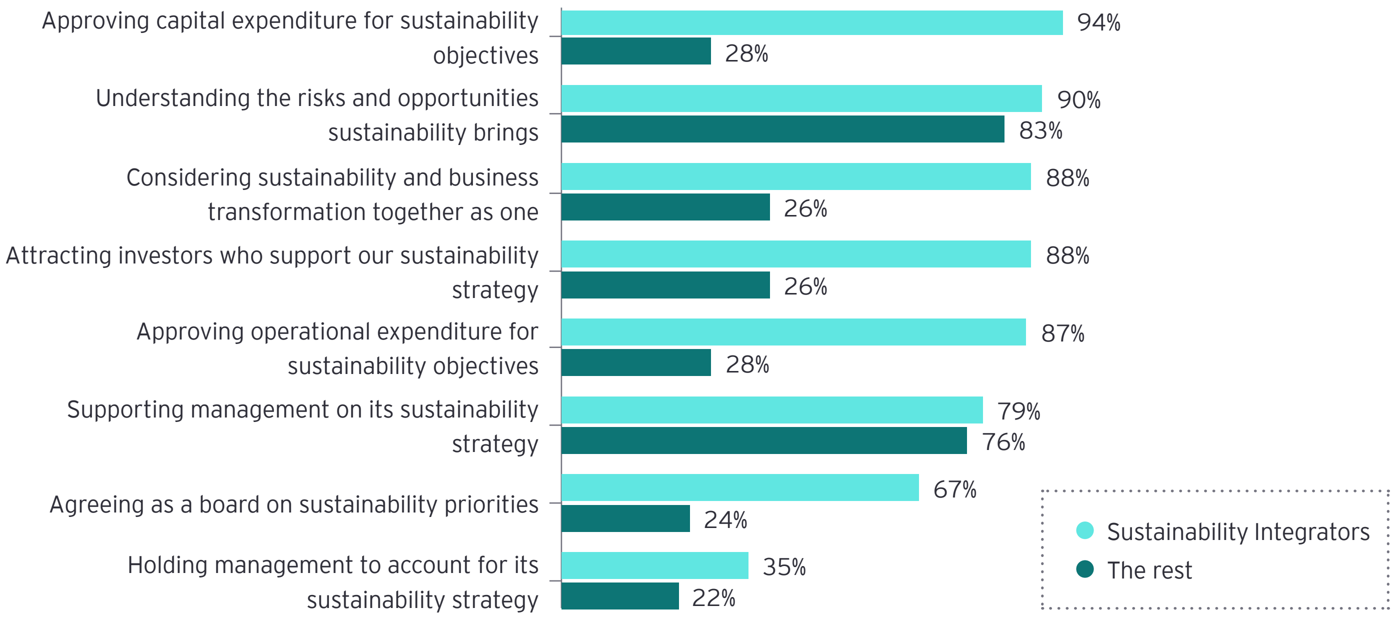
Meet the Sustainability Integrators

The Sustainability Integrators are defined as those that say their sustainability strategy is either completely integrated into their business strategy (5%) or integrated to a large extent (22%).

- They tend to come from Western Europe (77%), with smaller numbers based in Central and Eastern Europe (15%), Southern Europe (4%) and the Nordics (4%).
- They are spread across industries but have a strong showing in financial services (35%) and consumer and health (17%).
- They are spread fairly equally across company size: 48% come from businesses with revenues between $100 million and $1 billion, and 52% come from businesses with revenues above $1 billion.

Sustainability Integrators are much happier with how their boards perform

How effective do you feel your board is currently in the following areas? (boards and management of Sustainability Integrators)



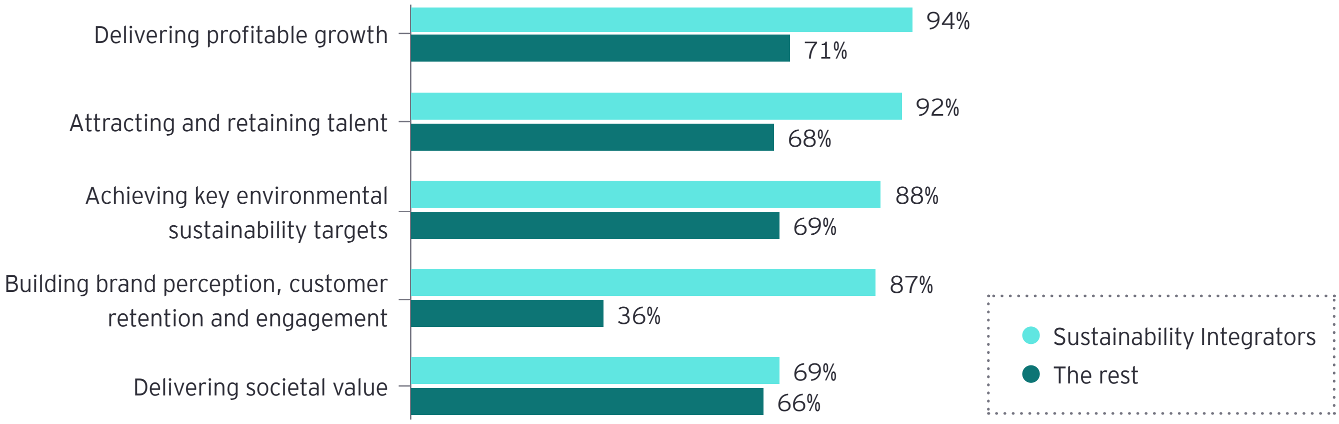
Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents: 200)*

Sustainability Integrators are highly confident about the effectiveness of their boards across a range of issues. These leading companies believe their boards are effective at approving funding for sustainability projects and at considering them together with wider business issues. The rest of the companies have significantly less confidence in their boards. On average, Sustainability Integrators rate their boards as 1.5 times more effective on sustainability issues compared to the rest.

That's not all. Sustainability Integrators are more confident about their business outlook, and their greater integration of sustainability issues into the business could be a contributing factor. On average, Sustainability Integrators are 40% more confident about their business outlook than the rest of the companies, and they're ahead of them in all the metrics we asked about.

Sustainability Integrators are more confident about growing profitably in the next 12 months

How confident do you feel about the outlook for your business in the following areas over the next 12 months?



Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents: 200)*

Sustainability integration in action: The Siemens story

"Sustainability is really at the core of everything we do," says GB&I Chief Financial Officer, Siemens plc.

The business is built around its sustainability framework, DEGREE, which is a 360-degree approach to integrating sustainability into the business. This framework focuses on decarbonisation, ethics, governance, resource efficiency, equity and employability. Each pillar has clear business metrics and target timelines for achievement. Employee groups and committees are set up to support each pillar.

"It's key to how to embed sustainability into the organisation," Murnieks says.

He adds that integrating sustainability in this way has three major benefits: It attracts customers, it attracts talented employees, and it leads to better commercial outcomes.

"If we take decarbonisation as an example, ultimately doing that drives sustainable efficiencies, but also, there is a real commercial value in that, too."

> "Sustainability is really at the core of everything we do
>
> **James Murnieks**
> GB&I Chief Financial Officer,
> Siemens plc

Five ways to emulate the success of Sustainability Integrators

1. Ensure that the board and management are aligned on sustainability

The integration of sustainability and business cannot happen in practice if senior leadership is not aligned in theory.

As things stand, they are not. Our research shows that almost all board members (94%) believe they are effective at ensuring sustainability transformation is adequately resourced and set up for success. But only two-thirds of management teams (67%) agree that boards do this well.

The misalignment is clear and must be addressed. The sustainability agenda is being reshaped by global dynamics, and companies must use this opportunity to reshape their own approaches. This will only be effective if boards and management teams agree.

Using a 'value bridge' framework can help drive more productive conversations between boards and management teams. The exercise revolves around having a factual, data-led, industry-focused conversation based on risk analysis, which can help executives stress test and scenario plan. Using a structured framework can facilitate better discussions and ensure progress.

2. Stop thinking sustainability is someone else's job

One major problem with not integrating sustainability into the wider business strategy is that it creates silos that are hard to break. Sustainability Integrators avoid this by making sure all board members — not just one leader — take responsibility for sustainability issues: 50% of them say they do this, compared with just 8% of the rest.

And 67% of Sustainability Integrators believe their board effectively aligns on sustainability priorities, compared with only 24% of the rest. These leading companies are significantly more collaborative than the rest, which could link to their overall better business outcomes.

Karin Hoeing group ESG, Culture and Business Transformation director for BAE Systems Plc, says that at her company sustainability considerations are being integrated into relevant policies and process. "We are building it into areas like engineering, design, manufacturing, procurement, M&A, new facilities, and so on," says Hoeing.

EY's Gerard Gallagher agrees and says that integrating sustainability into the business demands a change to the operating model. "To achieve progress at scale requires hyper-collaboration. Businesses must adapt to unknown and evolving challenges, leveraging technology and data to drive efficiency and transparency, adopting new commercial models and accessing new value pools. Sustainability and value creation can coexist. To move to action, we also need to create motivation derived from business performance and not only rely on risk, advocacy and regulations"

3. Make sure every function understands the business benefits of sustainability

Knowing what you need to do to integrate sustainability into the business is one thing; knowing how to do it is another. That's why skills are so important.

Eighty-three percent of the Sustainability Integrators say they are well supported with adequate sustainability skills throughout the business. This suggests that they're implementing training that helps employees outside the direct sustainability remit understand what they need to do and how to do it.

"We have awareness training internally and a global Supplier Code of Conduct for our suppliers," says Hoeing. "So they're all on the same page, which is important."

Siemens' James Murnieks says the company's DEGREE framework helps embed a sustainability culture within the company, but he adds that additional measures are also in place.

"Every employee is expected to do some self-development, and we encourage 50 hours of learning," he says. "They discuss with their manager the areas they ought to be developing, but two topics we highly advise are sustainability and digitisation. These core skills are so important for everyone to have moving forward."

4. Encourage integration by getting the right finance in place

Sustainability won't be integrated into the business without the right funding. It requires investment from the company to ensure close links between people and projects.

Sustainability Integrators know this, and they're acting on it. Almost all of them (90%) say they're well supported with adequate finances from the business, compared with only 26% of the rest. And Sustainability Integrators are more effective at approving both capital (94% vs 28%) and operational expenditure (87% vs 28%). These stark contrasts show that full integration is possible with the right funds.

Gerard Gallagher says there's a clear pathway to getting funding approved internally for sustainability integration. "Organizations must recognise that there is no one-size-fits-all approach to sustainability. Each business starts from a different place, facing its own set of challenges and opportunities. Making the transition pathway a reality requires the buy-in of every department and there needs to be clarity on how it supports positive business outcomes and creates value for the business. It's time to get really practical and to adopt a pragmatic approach that considers the current operating context and builds confidence to act."

Siemens' James Murnieks says projects are financed at his company with sustainability and business objectives on equal footing.

"We don't approach investment by just looking at sustainability," he says. "We approach investments by asking, 'Is it moving us forward in terms of what we're going to achieve in our financial performance goals and our sustainability goals?'"

5. Invest in technology programs that support delivery of your integrated strategy

Sustainability Integrators understand that they can't meet sustainability goals without the right technologies: 90% of them believe they are well supported by the right technologies, compared with only 68% of the rest. This suggests that these sustainability-assisting technologies help them to achieve their goals.

Dr Velislava Ivanova, Chief Sustainability Officer of EY Americas, says, "technology is a great enabler for companies to be able to collect more reliable data, manage performance better, monitor more effectively their progress on sustainability and commercial metrics and ultimately make more informed business decisions, including strategic investments and capital allocations. Technology can also be an accelerator for innovation and collaboration across the value chains."

"Think, for example, about the food and beverage sector, they have been using technologies to monitor crops to be able to better prepare for droughts, floods, soil quality or to withstand other environmental factors," she says. "There are so many ways technology can help companies to be more sustainable, we are really only scratching the surface."

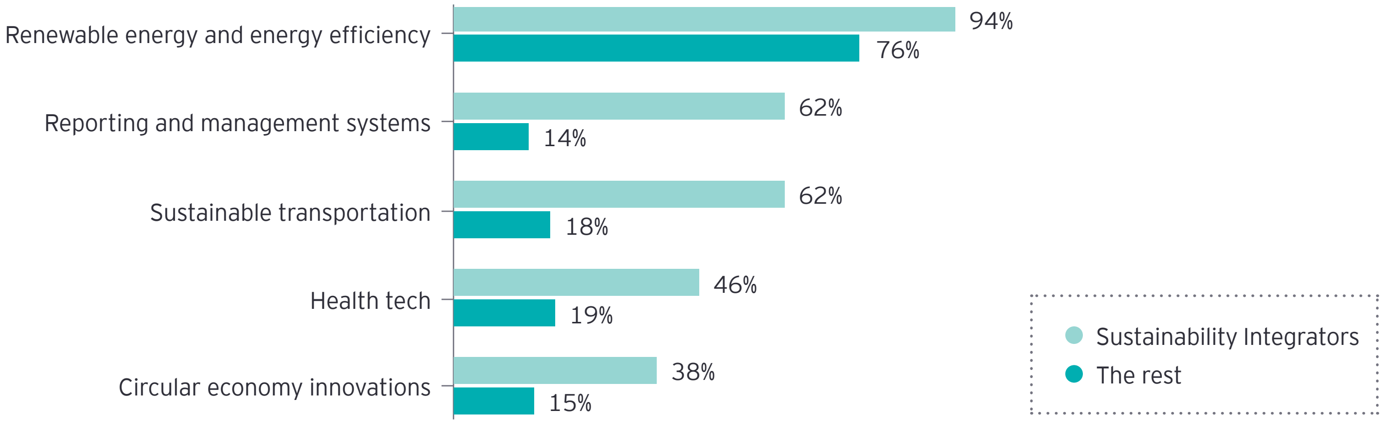
Siemens' James Murnieks agrees.

"Technology is the most powerful tool humanity has to build a more sustainable future. As well as reducing our own environmental footprint, 90% of our business enables customers achieve positive sustainable outcomes." he says. "They help companies commercially as well as on sustainability. There's a flip side too — what is the risk of not investing in technologies? It is significant. It can potentially mean being left behind."

These examples show that when technology is deeply integrated into the business and sustainability strategy, it can really make a difference.

Sustainability Integrators are investing more in sustainable technologies than the rest

Which of the following technologies and innovations is your business investing in as part of your sustainability efforts?



Source: *EY Long-Term Value and Corporate Governance Survey, February 2025 (total respondents: 200)*

Conclusion: It's time to get aligned on sustainability

The broader business and political environment is forcing CEOs and boards to decide where they stand on sustainability. And time and time again, the long-term business case has been proven. Challenges will exist in the short term, and trade-offs will need to be made. But our research shows that an integrated sustainability strategy is the best approach – for business and the world.

Boards and business leaders must take this opportunity to realign their thinking on sustainability, but they need to do so together. An integrated strategy will fail unless every part of the business and its leadership are pulling in the same direction.

Our latest research shows that sustainability isn't just good for business – it should underpin every part of the enterprise. Only an aligned leadership team can make this happen.

Questions for self-reflection by board members

- **How well are we integrating sustainability into our core business strategy?**
  This question prompts boards to assess the depth of integration and identify areas where sustainability might still be treated as a standalone initiative.
- **How aligned are we, as a board, with senior management on sustainability priorities and their importance to our business? How confident are we in that assessment? If we are not aligned, how do we get aligned, and what would be the benefits?**
  These questions prompt boards to challenge and check existing perceptions that may be limiting the execution of strategy.
- **How are our sustainability efforts aligned with our commercial objectives, or do we see them as separate?**
  This helps in understanding whether there's a disconnect between sustainability goals and business goals, which could hinder overall performance.
- **What steps are we taking to ensure that all levels of management and employees are engaged with our sustainability strategy?**
  This question helps identify gaps in engagement across the organisation. Plugging them is crucial for the success of sustainability initiatives.
- **How well do we understand business cases for funding sustainability projects and considering them alongside wider business issues? How are we measuring the financial and non-financial returns on our sustainability investments?**
  These questions help boards evaluate the effectiveness of their sustainability investments in terms of business resilience and profitability.
- **What mechanisms do we have in place to ensure that our sustainability strategy evolves with changing global dynamics and stakeholder expectations?**
  This question encourages boards to stay proactive and adaptive in their approach to sustainability, ensuring relevance and responsiveness to external pressures and opportunities.

Report Authors

Julie Linn Teigland
EY Global Vice Chair – Alliances & Ecosystems; EY EMEIA Area Managing Partner

Andrew Hobbs
EY EMEIA Center for Board Matters Leader, EY EMEIA Public Policy Leader

About the research

This report is the fifth edition of the EY Long-Term Value and Corporate Governance Survey. In January 2025, we surveyed 200 of Europe's most senior business leaders about their approaches to sustainability. Half were board members (chairperson or non-executive directors), and half were CEOs and C-suite members. They represented all 27 EU member states, plus Norway, Switzerland and the UK. Companies came from a range of sectors: consumer and health, financial services, government and infrastructure, industrials and energy, private equity, and technology, media and communications. Half of these business leaders represented companies with revenues ranging between US $100 million and US$1 billion in the last fiscal year, and the other half represented those with revenues of more than US$1 billion in the last fiscal year.

In addition to the survey, we conducted in-depth interviews with business leaders and leading experts in the sustainability space. With thanks to:

- **Kai Andrejewski** – Senior Partner Agora Strategy and former CFO of Sixt, who now holds a range of board roles.
- **Gerard Gallagher** – EY Global Sustainability Leader – Clients & Industries
- **Karin Hoeing** – Group ESG, Culture and Business Transformation Director, BAE Systems
- **Dr Velislava Ivanova –** EY Americas Chief Sustainability Officer
- **Gill Lofts –** EY Global Financial Services Sustainability Leader
- **James Murnieks –** GB&I Chief Financial Officer, Siemens plc
- **Fiona Watson** – Vice President, Corporate Performance & Accountability at the World Business Council for Sustainable Development (WBCSD)

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Defining sustainability and ESG

Sustainability is the practice of operating a business in a way that meets the economic, social and environmental needs of the present without compromising the ability of future generations to meet their own needs – measuring success in terms of the "triple bottom line" of profit, people and planet. ESG is a framework – often used as risk assessment in the investment industry – that provides a more quantitative, granular assessment of a company's risks and opportunities, using benchmarks and metrics to build an understanding of environmental and social issues ("E" and "S"), as well as the corporate governance practices ("G") that ensure it is run in the best interests of all stakeholders.

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All in to shape the future with confidence.

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