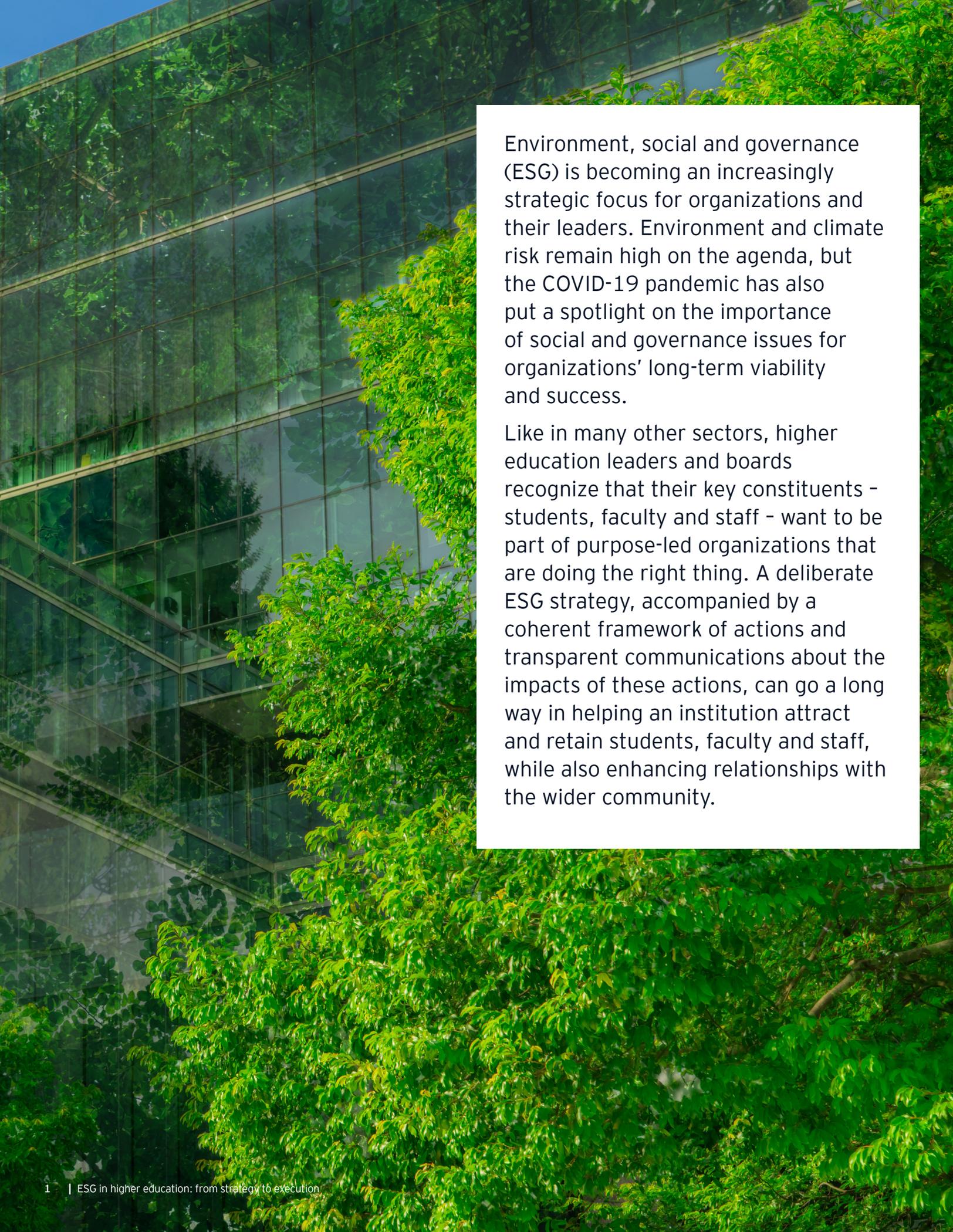


ESG in higher
education:
from strategy
to execution





Environment, social and governance (ESG) is becoming an increasingly strategic focus for organizations and their leaders. Environment and climate risk remain high on the agenda, but the COVID-19 pandemic has also put a spotlight on the importance of social and governance issues for organizations' long-term viability and success.

Like in many other sectors, higher education leaders and boards recognize that their key constituents - students, faculty and staff - want to be part of purpose-led organizations that are doing the right thing. A deliberate ESG strategy, accompanied by a coherent framework of actions and transparent communications about the impacts of these actions, can go a long way in helping an institution attract and retain students, faculty and staff, while also enhancing relationships with the wider community.

Introduction

Who is responsible for developing a cohesive ESG strategy for a higher education institution? While this requires commitment from the very top – the board and the president – strategy formulation and execution also needs support from many stakeholders throughout the organization to succeed:

- ▶ **The “E”** - Chief sustainability officers are critical contributors to setting the environmental sustainability agenda and goals and holding the institution and key stakeholders accountable. Heads of procurement can drive changes in supplier management to ensure shared values and commitment. Chief investment officers can incorporate elements of ESG into how endowment funds and portfolios are invested and managed over time.
- ▶ **The “S”** - Chief human resource officers play an important role in defining the culture of a higher education workplace and creating an environment where employees and students feel safe and valued. Academic leaders help make the teaching and learning experience for faculty and students engaging and rewarding. Student affairs leaders support students across all aspects of their lives.
- ▶ **The “G”** - Boards have a responsibility to their institutions to provide financial oversight and transparency to the community. Strong boards don’t just oversee institutions; they also regularly examine their own composition and practices.

Figure 1: ESG framework



While ESG requires support at the highest levels of the organization to signal commitment, it also needs to be embraced throughout the organization to actually take hold and deliver results.

This paper focuses on the first part of the ESG framework – environment – in the context of the higher education sector and highlights decisions that higher education institutions are making to advance this area.

It is certainly a large undertaking to reduce an institution’s carbon footprint. Having a well-thought-out

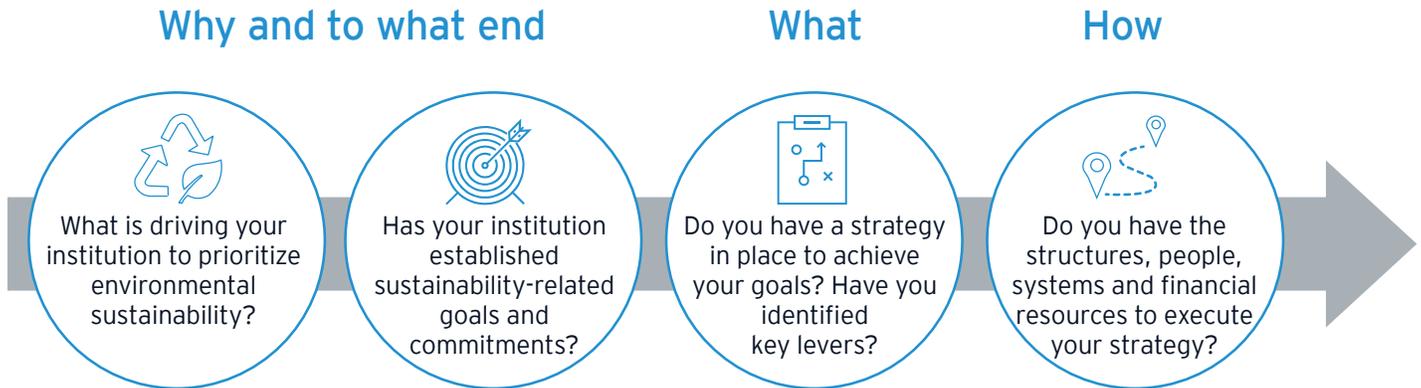
strategy supported by a rigorous execution plan that puts in place necessary governance and organizational structures, as well as identifies funding sources, can help institutions of all types and sizes make tangible strides toward their sustainability goals.

The observations and findings in this paper have been informed by a survey of finance, operations and academic administrators at universities across the United States (n=176) conducted by the EY-Parthenon team in February 2022.

Organizing Framework

Throughout the paper, key findings are organized into the three categories illustrated in Figure 2 below.

Figure 2: From goal setting to strategy to execution



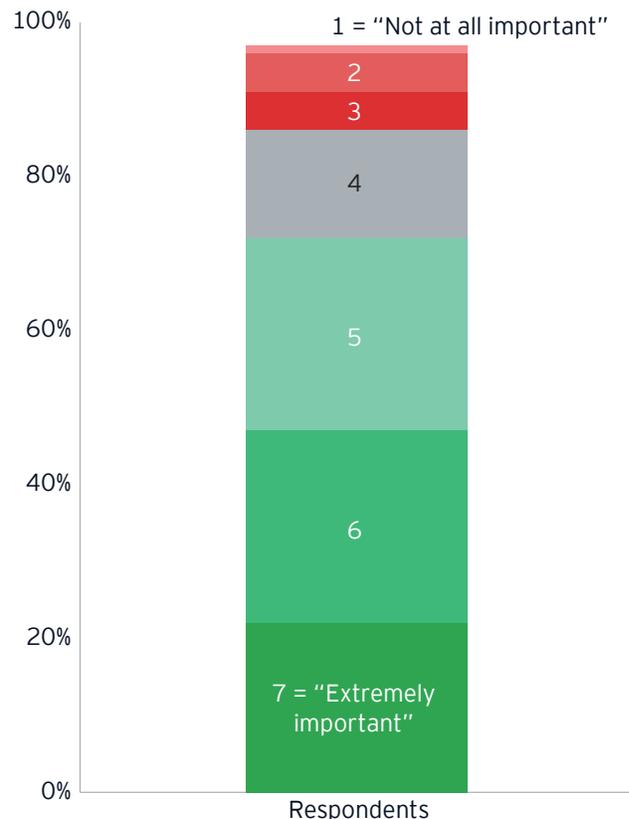
Why: What is driving your institution to prioritize environmental sustainability?

Institutions are increasingly interested in environmental sustainability. Almost 75% of institutions surveyed by the EY-Parthenon team indicated that environmental sustainability is important to them (Fig. 3).

Respondents also indicated that they believe a commitment to environmental sustainability is particularly important to students and faculty as compared to other stakeholder groups on campus (Fig. 4).

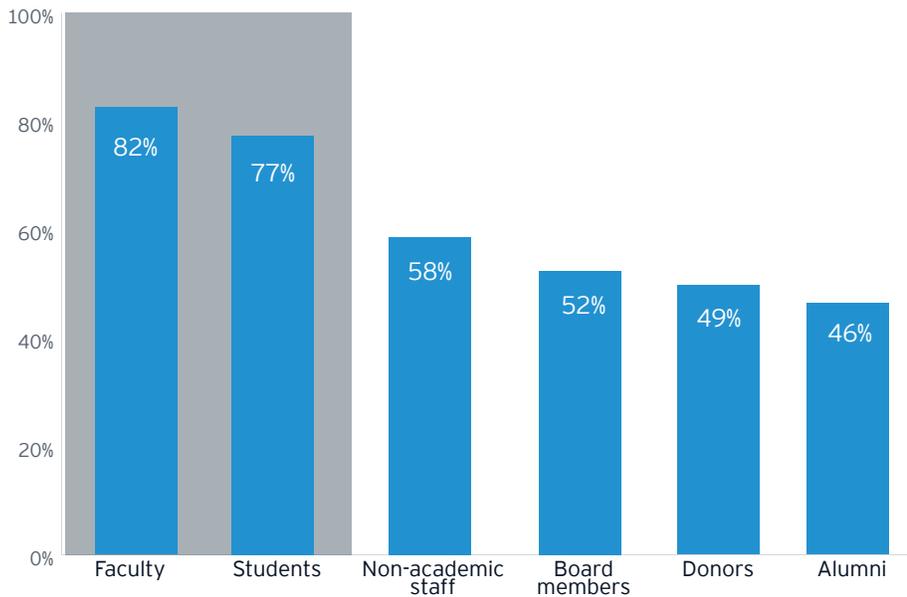
This aligns with trends observed more broadly across the US and globally. A 2021 study¹ from EY found that 55% of Gen Z say that they are "very" or "extremely" interested in environmental issues, up from 40% pre-pandemic. They also back it up with actions: 71% reported buying used or pre-owned clothing, 61% recycle regularly and 57% think it is very or extremely important to buy from brands that protect and preserve the environment. This attitude toward brands could well extend to higher education institutions, which represent some of the most enduring brands in our lives.

Figure 3: Importance of environmental sustainability



¹ 2021 Gen Z Segmentation Study, Ernst & Young LLP

Figure 4: Importance of institutional commitment to environmental sustainability, by stakeholder group



As one sustainability administrator at a large research university reflected:



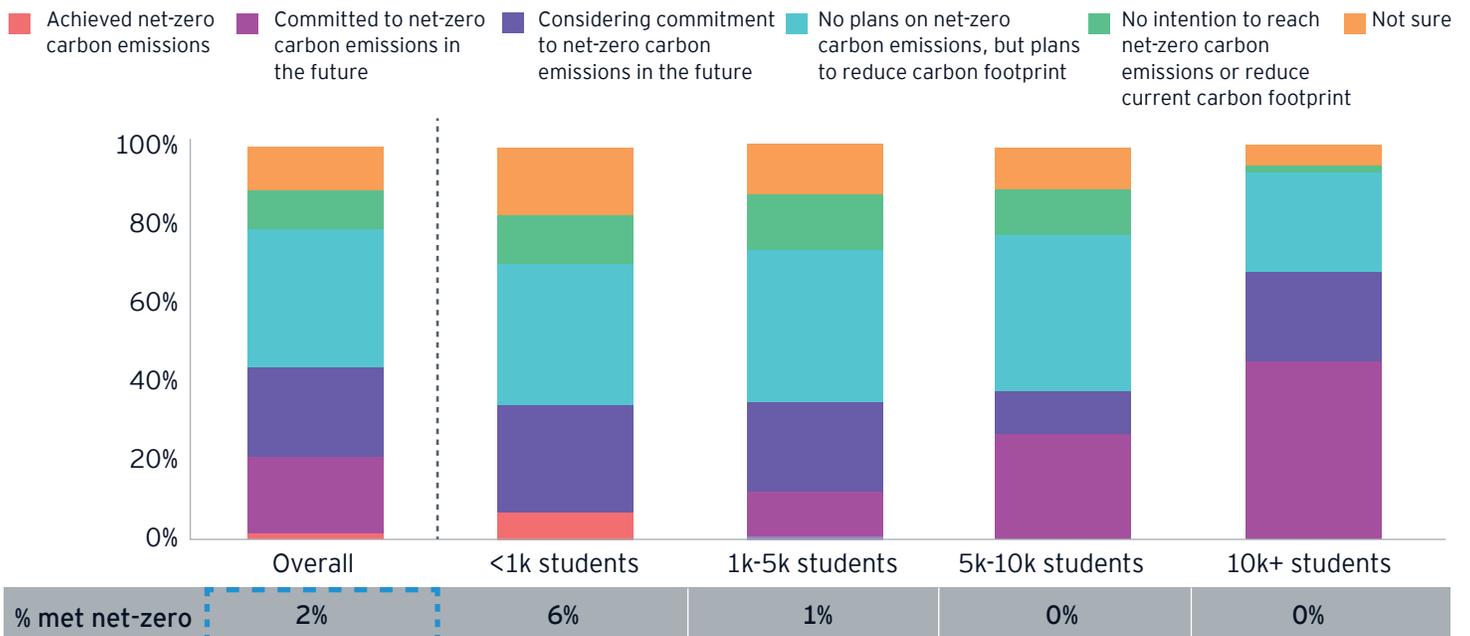
The sustainability efforts at our university were initially primarily driven by our students. We then took the reins with driving some of the green building efforts and a call to climate action, but the culture started with the students.

Chief Sustainability Officer
Large public university

To what end: Has your institution established sustainability-related goals?

Net-zero carbon emissions refers to the status of taking as much carbon out of the environment as you put into it. Net-zero carbon emissions goals are a common ambition among higher education institutions and often serve as a good starting point for discussions regarding environmental targets, but they may not be right for every institution. As shown in Fig. 5, roughly 40% of surveyed institutions have committed to or are considering a commitment to reach net-zero carbon emissions, with some interesting differences by size of institution.

Figure 5: Current status of net-zero carbon emissions

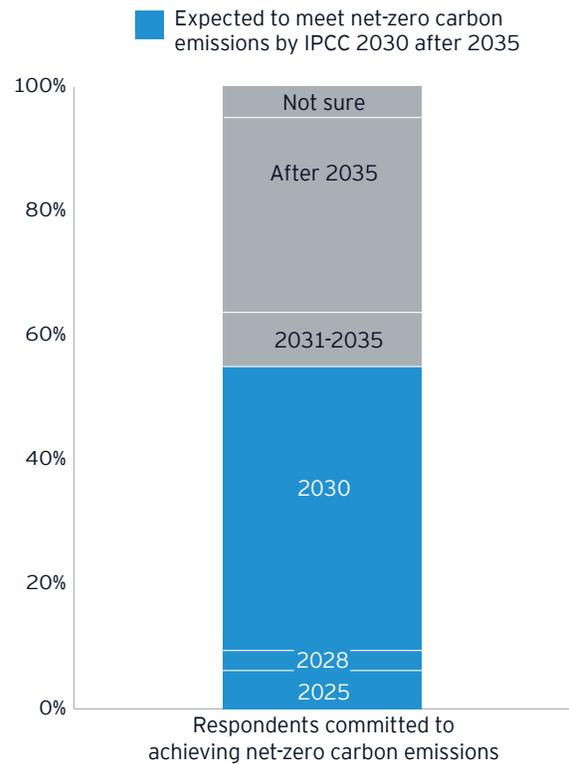




Perhaps not surprisingly, the largest institutions (measured by student enrollment) – and therefore also with the largest real estate footprint – have the highest share of respondents (close to 50%) committed to net-zero carbon emissions, as compared to just over 10% of small institutions.

Of those institutions that have made a commitment to achieving net-zero, just over 50% expect to reach their commitment by 2030 (Fig. 6), a key year for emissions targets based on the Intragovernmental Panel on Climate Change (IPCC) deadline for reducing emissions in service of capping the rise of global average temperatures at 1.5°C.²

Figure 6: Planned year of net-zero carbon emissions



This begs the question of what strategies will these institutions be adopting to achieve net-zero by 2030 (or beyond).

And while over half of the responding institutions do not intend to aim for net-zero, many of these institutions have put forth other goals related to reducing their carbon footprint and will have to go through strategic planning efforts and operational changes not dissimilar to the efforts undertaken by those aiming for net-zero carbon emissions.

² "Summary for Policymakers" in Global Warming of 1.5°C, IPCC, 2018

What: Do you have a strategy in place to achieve your sustainability goals?

Of the institutions with plans to achieve net-zero carbon emissions, about 50% (Fig. 7) already have an environmental sustainability strategy in place; however, these strategies represent a variety of targets and levels of institutional readiness to execute.

An additional 35% of institutions intend to create a sustainability strategy in the coming years. Both sets of institutions will need to consider carefully what levers they pull to achieve their targets. These levers can range from educating constituents on how to reduce their carbon use to purchasing carbon offsets to producing renewable energy on-site and sourcing local food in dining halls.

As shown in Fig. 8., among the institutions surveyed, two-thirds of respondents had some awareness of the sustainability efforts occurring within their institution. Within that two-thirds, respondents believed that of the initiatives used to support the achievement of net-zero carbon emissions in their institution, 46% of initiatives were operational changes, 25% were carbon offset purchases and 17% were nature-based carbon-removal processes. Respondents were unsure how the additional 12% of initiatives broke down across these categories.

Figure 7: Prevalence of an environmental sustainability strategy

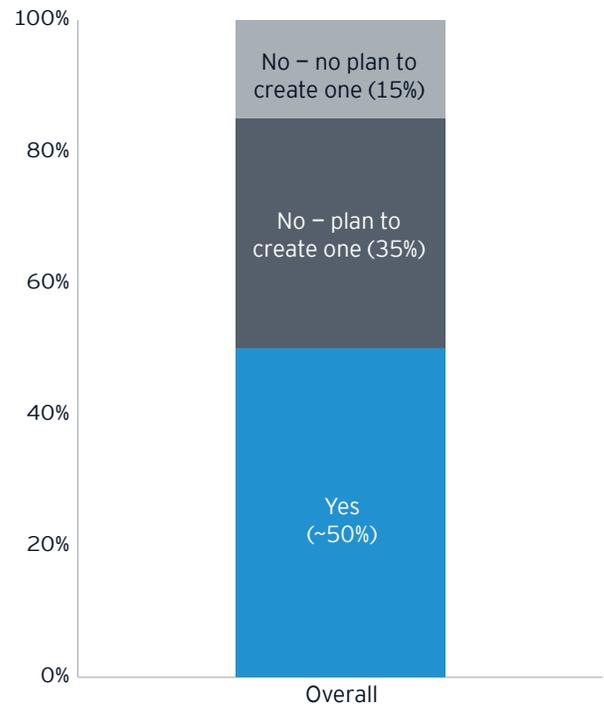
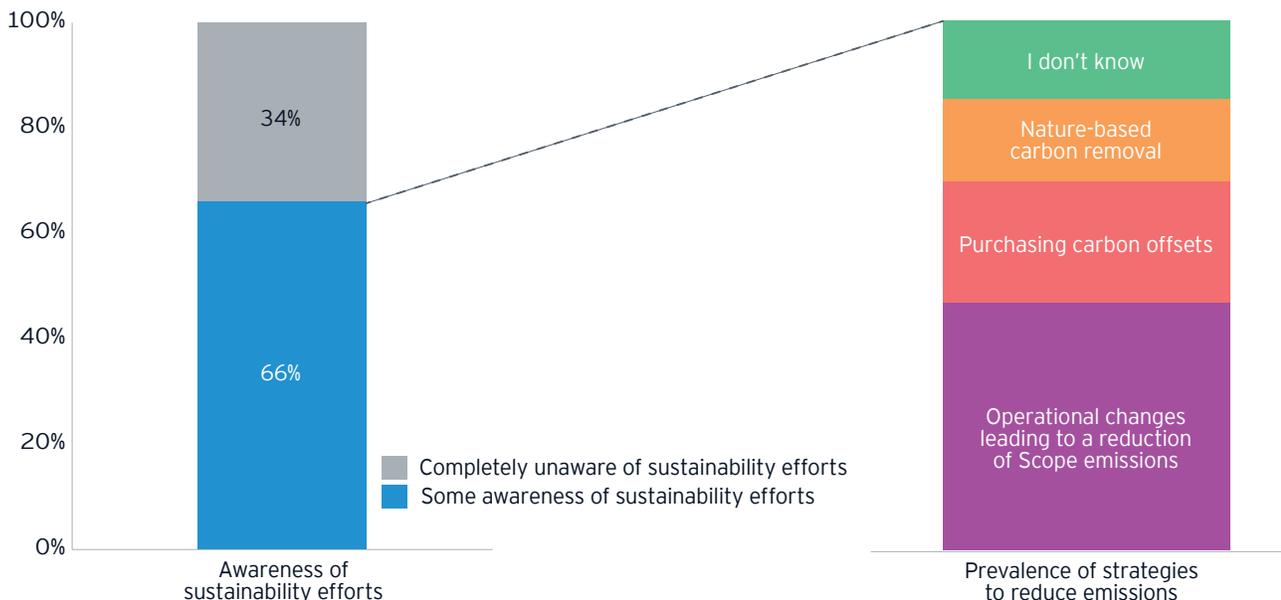


Figure 8: Strategies to achieve net-zero emissions





While sustainability experts recognize that carbon offsets will always be a part of a low-carbon strategy, they also indicate that the most impactful actions towards a net-zero outcome will attempt to reduce carbon emissions as much as possible prior to relying on offsets.

One higher education sustainability administrator interviewed by the EY-Parthenon team noted this distinction:

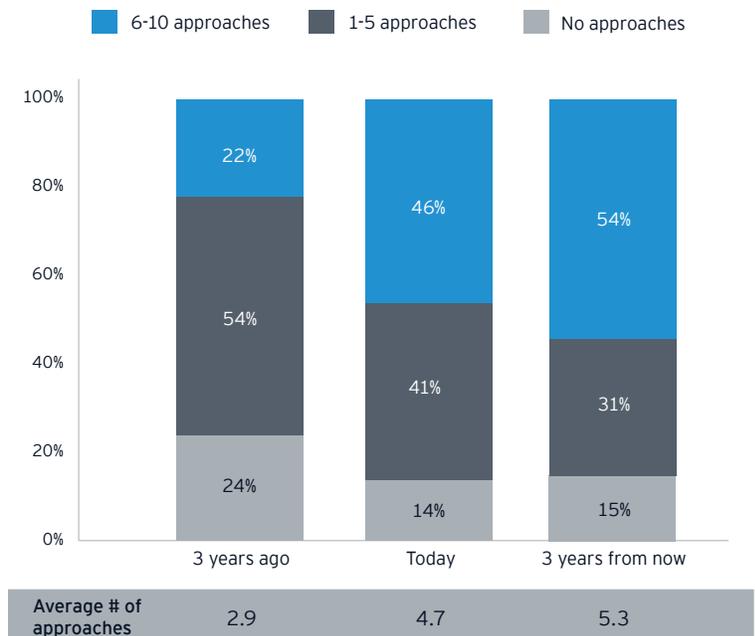
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There is a divide between institutions that are quite willing to follow tangible steps to improve sustainability and those that just buy offsets. Institutions that take tangible steps tend to be research-oriented and technologically strong, while institutions that purchase offsets typically do so because they are not technological powerhouses and it's harder for them to make improvements necessary for decarbonization. It's easier to just purchase the offsets.

Chief Sustainability Officer
Large private university

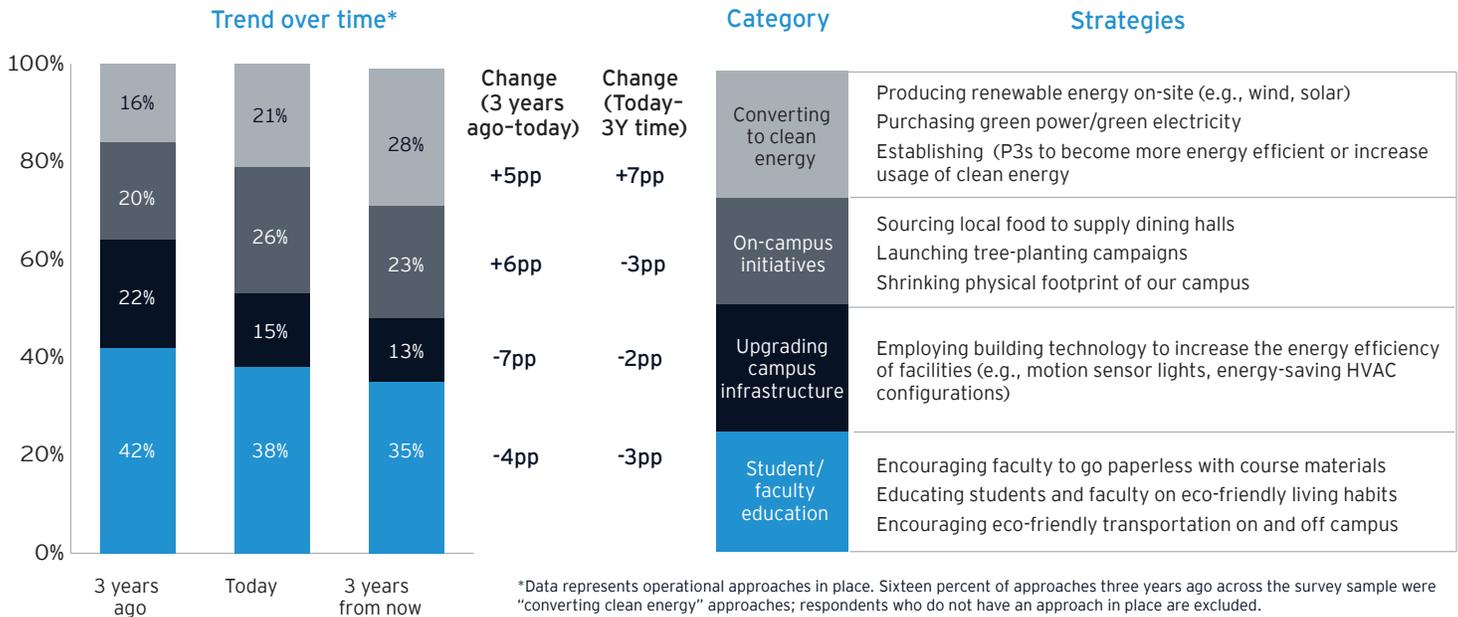
When asked about their strategies to reduce carbon emissions, institutions indicated that they are increasingly relying on a portfolio of strategies and this portfolio is becoming more diverse. As recently as three years ago, institutions relied on three strategies on average to reduce carbon emissions; today, that number has almost doubled and is expected to continue to grow going forward (Fig. 9).

Figure 9: Portfolio of strategies



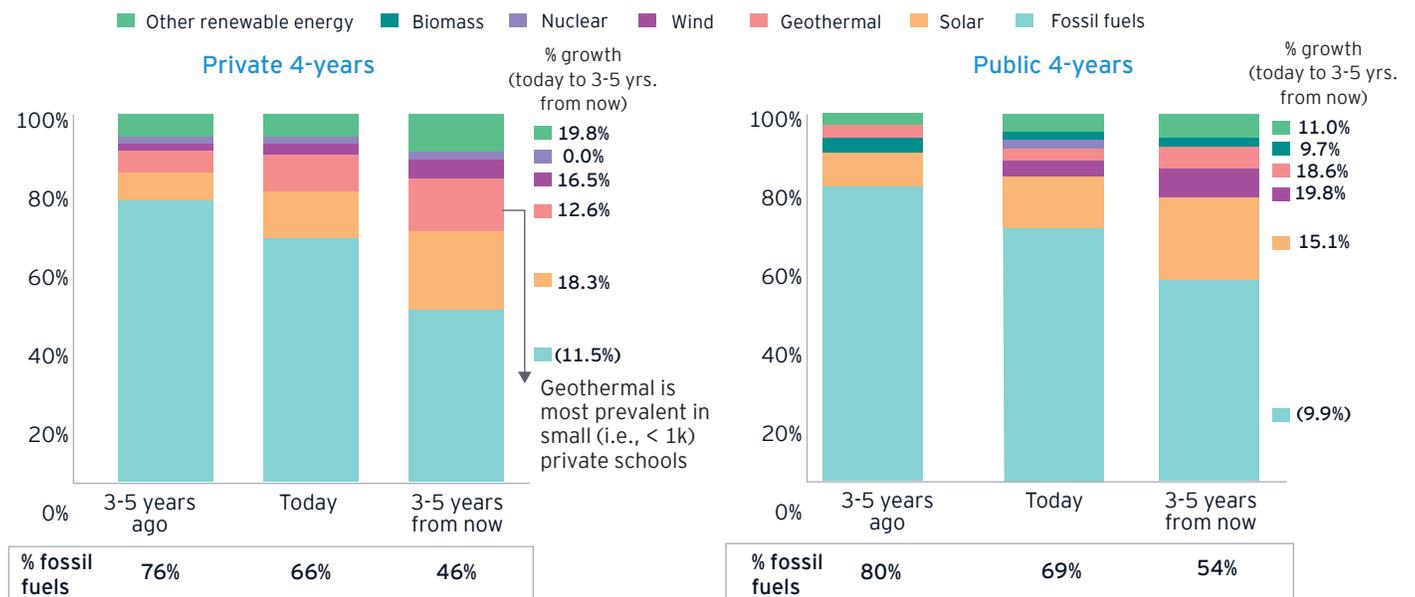
Institutions initially relied on more easily implemented strategies, such as education of students, faculty and staff to change behavior; upgrading campus infrastructure and building technology to improve energy efficiencies; and on-campus initiatives such as local food sourcing for dining halls or tree-planting (Fig. 10). Having addressed a lot of the “low-hanging fruit,” institutions are now increasingly turning to opportunities that decrease reliance on fossil fuels and increase usage of renewable energy sources. These strategies include producing or purchasing renewable energy (to address Scope 2 emissions) or leveraging public-private partnerships (P3s) to deploy a range of new technologies to address Scope 1 emissions (Fig. 10).

Figure 10: Institutional strategies to reduce carbon emissions



Despite their stated intent to increase the usage of clean energy, many institutions remain reliant on fossil fuels: 65%-70% of respondents say their energy usage today is from fossil fuels (Fig. 11).

Figure 11: Breakdown of institution energy use over time





Institutions expect this reliance on fossil fuels to decrease to ~45%-55% over the next three years, with the greatest improvements occurring in solar, geothermal and wind as energy sources. Private institutions, and in particular small privates, are expecting geothermal to increase faster relative to public institutions. These shifts are quite positive, but at this anticipated rate of change the shifts are unlikely to occur at the speed necessary to meet 2030 emissions reduction goals. Institutions will need to consider a bolder plan for energy transition now if they intend to meet goals of carbon neutrality by 2030.

While many institutions look to campus-based strategies, such as installing solar panels on buildings, on-site renewable energy creation is typically not enough to

meet a net-zero strategy, and off-site power purchase agreements may be necessary. Renewable energy purchasing through utility programs can be simple and cost-effective to purchase but must be renewed each year to maintain an institution's renewable energy status, as sustainability administrators interviewed by the EY-Parthenon team pointed out. Off-site power purchase agreements may require long-term commitments which in current market conditions may result in an institution paying a premium for renewable energy. Off-site power purchase agreements remain fairly uncommon in higher education today (in comparison, they are much more common in the corporate world) but will likely need to be part of the portfolio of strategies necessary in the final stages of institutions meeting their net-zero carbon emissions goals.

How: Do you have the structures, people, systems and funding to execute your strategy?

Once institutions have set their goals and landed on the core strategic levers to achieve these goals, they can formulate an actionable plan to execute on their strategy effectively.

Of the over 400 institutions that signed on to the President's Climate Pledge over the past 15 years, 10 have met their goal of carbon neutrality.³ As the IPCC deadline approaches, institutions seeking to meet that time frame should assess whether they have the right execution and resourcing plans to meet their sustainability goals. Plans should take into account the following: governance, organizational supports, funding mechanisms, and performance monitoring and reporting.

Governance

Executing on institutional sustainability strategies can be a large and daunting undertaking, given how diffused the actions supporting sustainability are likely to be across the organization.

Making progress against goals requires selecting a governance model that works for the institution, given its context and culture. In some cases, a top-down approach to governance can work, especially if senior leadership and management are committed to driving change. In other situations, a bottom-up version of governance may be more appropriate. No matter which model is selected, there needs to be clarity of roles and responsibilities for all involved. In the top-down model, responsibility for the sustainability process and progress is more centralized; in the bottom-up model, it is much more distributed with responsibilities shared between various institutional areas.



³ Climate Leadership Network / Second Nature

Organizational structures and supports

Regardless of whether governance is centralized or shared, effective execution may benefit from a core group of people who are more or less dedicated to the effort – who wake up every morning seeing sustainability as their primary or sole work objective. Higher education institutions have solved for this in different ways. Many have ramped up hiring for sustainability positions, with the number of sustainability positions growing at 32% per year from 2017-2019 (AASHE). Today, about 60% of the 133 R1 and 30%+ of the 130 R2 universities have Chief Sustainability Officer positions. AASHE reports that the main impetus for the creation of sustainability positions is new institutional commitment to sustainability goals.⁴



Creating an office of sustainability – whether it is a separate, formal office or a group of leaders coming together to share in the responsibility – can help institutions to ensure they are tracking to their goals and making the necessary changes. As one administrator noted:

“

We created a strategic plan for sustainability at the university. And a major outcome of the plan which students, faculty, and staff had advocated for was to hire a director of sustainability and create an informal office of sustainability at the university to help coordinate the execution of the strategy.

CFO
Medium private university

As institutions think seriously about what their sustainability priorities and goals are and begin to execute on their strategies, there will likely be additional human capital needs going forward.⁵

⁴ “Salaries and Status of Sustainability Professionals in Higher Education” AASHE, 2020

⁵ Ibid.

Funding and financing mechanisms

Achieving ambitious sustainability goals may also require identifying sources of funding. Upgrading campus infrastructure and developing clean energy sources can be expensive, but a financing strategy can ease the cost burden by optimizing spending and spreading out expenditures over a long period of time. One institution interviewed by the EY-Parthenon team described this dynamic well:

“

We have a road map with a cost structure and financing strategy to get us to our 2050 carbon-neutrality goal, with a goal of a 30% reduction in emissions by 2035. It's going to be really expensive, but it is a priority for us. The biggest piece is the transition from natural gas to electricity, which would be prohibitively expensive to do all at once, but in that time frame we can spread out the spending.

CFO
Medium public university

P3s partnerships are one option for higher education institutions to finance their commitments to sustainable energy transitions, bringing private sector expertise and capital to the table to help with the purchases involved with the strategic transition towards clean energy. These partnerships typically take the form of long-term agreements between higher education institutions (public or private) and private-sector consortia that then assume responsibility for the design, construction, financing, operations and maintenance of the utility under an “energy as a service” type model, passing the assets back to the institution at the end of the agreement. Power purchase agreements for off-site renewable energy work in a similar way, with the institution providing offtake commitments for the renewable energy at a pre-agreed price, and the renewable energy developer retaining responsibility for the design, construction, financing and operation of the renewable energy asset.



Performance monitoring and reporting to sustain change

As mentioned at the outset, a cohesive sustainability strategy involves many stakeholders during the development stage and relies on many for successful execution. Commitment to execution has to come from all levels of the organization – from the board, the president and the executive cabinet to students and faculty to management and staff. As one higher education sustainability officer put it:

“

Our job, every day, is to embed sustainability into the culture of the university and help every person on campus support us on our journey towards true sustainability.

Chief Sustainability Officer
Medium private university

Yet, for this kind of commitment to endure, it has to be nurtured. Tracking and reporting on progress is a part of this. Institutions may choose to place the responsibility for performance monitoring and reporting in a particular office – e.g., the president’s office, the sustainability office or the office of institutional research. Regardless of where the responsibility lies, the benefits of having a rigorous approach to monitoring and reporting are many:

- ▶ It is an opportunity to celebrate milestones and wins, keep the momentum going and keep people excited about continued participation.
- ▶ It is also an opportunity to take stock, regularly, of the effectiveness of the strategy and execution plans. Does the overall strategy still hold? Does the execution plan still include the right levers or should the portfolio be adjusted? Does everyone understand their respective roles and responsibilities in the broader execution plan?
- ▶ It establishes transparency and provides clarity about both the costs and benefits of improved sustainability.
- ▶ And finally, it creates accountability and helps build trust, showing that the institution is willing to hold itself accountable for progress and is not just putting out aspirational goals to appease the loudest constituent voice.



What's the right environmental sustainability strategy for your institution?

As you embark on a journey to define your environmental sustainability strategy, or if you are already on this journey but unsure about the direction to take at the next fork in the road, consider the key steps below.

1. Ask questions to determine goals and to align the institution around these

Why are you interested in this area?

- ▶ What internal and external forces are encouraging you to focus on this issue?

What do you want to accomplish?

- ▶ What are your core constituents (students, faculty, staff) interested in?
- ▶ What kinds of commitments are they seeking?
- ▶ What environmental issues are most material to your institution/constituents?
- ▶ How far are you prepared to go in terms of commitments?
- ▶ What are feasible goals? What are aspirational goals?

How will you accomplish these goals?

- ▶ Will your strategy include operational changes to reduce carbon emissions?
- ▶ Will your strategy rely on behavioral changes across constituents (students, faculty, staff)?
- ▶ Will your strategy also include purchasing of carbon offsets?

More specifically, what will be your approach to reducing emissions?

- ▶ On what sources of energy is your institution currently relying?
- ▶ What is your institution's energy budget?
- ▶ How fast will you need to move away from fossil fuels to meet emissions reduction targets?
- ▶ What sources of clean energy are right for your institution?
- ▶ What campus infrastructure changes are feasible or necessary to meet emissions targets?
- ▶ Which infrastructure upgrades will have the most significant impact on emissions?

2. Design an actionable execution plan with clear responsibilities and accountability

How will you oversee execution and monitor progress?

- ▶ Do you have the right governance structure in place to implement your strategy?

Do you have the organizational structures, capabilities and systems needed to execute your strategy?

- ▶ Do you have the right people with the right skill sets in the right places within your institution to drive your progress against agreed-upon goals?
- ▶ What additional investments, if any, may need to be made to build a strong foundation for execution? Investments in people, systems, physical spaces/buildings?

How will you fund/finance your strategy?

- ▶ How will you weigh up-front costs against long-term value?
- ▶ How will you finance the transition to clean energy?
- ▶ Will you consider private funding partnerships?

How will you manage the change and transformation?

- ▶ Does your institution have a change management strategy and function in place?

3. As needed, choose an advisor to support you in this multi-faceted journey

Sometimes, a third-party, objective perspective can be helpful in overcoming a stalemate over goals or strategies to achieve them, or in accelerating progress against goals. Some baseline criteria to assess which advisor may be right for you are:

- ▶ Can the advisor bring in leading practices from other industries or peer organizations to inform your internal debates?
- ▶ Does the advisor have the ability to develop a rigorous fact base to “cut through the noise” and enable data-driven decision-making? For example, to help you identify the portfolio of strategies/actions that will deliver the most “bang for the buck?”
- ▶ Can the advisor provide you with a nuanced perspective on what it’s going to take to implement your strategy - from governance leading practices to operating model design to articulation of roles and responsibilities to a performance management system?
- ▶ Does the advisor share your values and understand your culture so that their recommendations bolster your community and strengthen engagement rather than creating unnecessary disruption or divisiveness?

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US SCORE no. 16555-221US

CSG No. 2206-4055513

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