



UNIVERSITY OF  
CAMBRIDGE

INSTITUTE FOR  
SUSTAINABILITY LEADERSHIP

# Building alignment to enable leadership towards Net Zero

A discussion with Lloyds Banking Group

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**Fiona Cannon** is Group Sustainable Business Director at Lloyds Banking Group. Since taking up this position in 2017, she has played a critical role in shaping the bank's strategic response to climate change and to sustainability more broadly. During this time, Lloyds became the first major UK bank to make a commitment to reducing the carbon emissions it finances by more than 50 per cent by 2030, and has risen from last place in ShareAction's 2017 Banking on a Low Carbon Future ranking, to second place in the 'leader' category in the 2020 edition. In addition, Lloyds Banking Group has launched new and innovative products including a £2 billion Clean Growth Finance Initiative and the £1 million Electric Vehicle 1000 product, providing £1,000 cashback on purchase of an electric vehicle.

**Lindsay Hooper**, Executive Director of Education at the University of Cambridge Institute for Sustainability Leadership (CISL), interviewed Fiona about the strategic implications of sustainability for Lloyds Banking Group, and what it has taken to achieve such rapid progress and alignment of ambition across the Group.

Lloyds Banking Group is a long-standing CISL Strategic Partner, a member of CISL's Banking Environment Initiative and the Corporate Leaders Group. CISL has worked with Fiona and her team over a number of years in support of her work to shape the bank's strategy.

**LH: How does sustainability – and particularly climate change – relate to Lloyds Banking Group? In particular, what risks and opportunities does climate change pose for the business?**

**FC:** A really important starting point is to understand our purpose as a bank and our role and significance in the UK economy to 'Help Britain Prosper'. As the UK's largest retail and commercial bank, we have a presence in every community and almost every household, and we support large and small businesses across all sectors of the economy. Our prosperity as a bank is, therefore, completely interwoven with the prosperity of the country.

Because of this position, we believe that as well as acting responsibly across our core business, we have a responsibility to partner with the UK Government and society more widely to help address the social, environmental and economic challenges that are most relevant to us. This includes contributing to new thinking in government and across the banking sector, and contributing to new policies, standards and regulation that will support the transition to a sustainable, lowcarbon economy, which we see as critical to helping Britain prosper for the long term.

When we look specifically at climate change, and the transformation that will be required to cut carbon emissions right across the economy, the implications are fundamental to the future of our business and the continued resilience of the businesses and households we support. We are already seeing at first hand the direct impacts of the changing climate on our business. For example, the increase in flood-related claims in our insurance division. We, and the businesses we finance, also face significant transition risks. For example, we have the biggest vehicle leasing company in the UK with a fleet which has historically been dominated by diesel vehicles – and

there are clearly issues for us if we don't move quickly in light of the UK's focus on reducing vehicle emissions and improving air quality.

**LH: Were there specific triggers or drivers that led the Group to decide that an ambitious, strategic response was required?**

**FC:** I first engaged with sustainability and climate change in 2017 when I took on the bank's Responsible Business portfolio. I undertook a review of what it meant to be a 'responsible business' and, through that review, recognised the need for the bank to be working proactively to support and enable the UK to transition to a more sustainable economy.

I also became aware of the work that was happening in our Commercial Banking division to respond to customer needs by supporting them to transition their business to operate more sustainably. It became clear that, to be effective in supporting our customers, it wasn't enough to have just one division working on this; we needed a Group-wide strategy. In part this was because the world sees Lloyds Banking Group in its totality. We therefore needed a joined-up approach to avoid any reputational damage arising from different approaches being taken in different parts of the business. We also have significant interdependencies across the Group, so we needed a Group-wide response to ensure that we could leverage some of the clear opportunities that exist from developing a coordinated response on climate change.

As well as continued growth in demand from business customers, we also started to see a

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growing range of drivers that has made the imperative for taking action even stronger, including:

- Employees raising questions about what we were doing on sustainability. You could call it ‘the David Attenborough effect’, which resulted in colleagues taking a close interest in what we were doing, particularly in relation to our internal footprint, such as our use of plastics. All the research that we were doing on employer branding was telling us that people wanted to work for an organisation that was making progress on environmental issues.
- Increased expectations from our shareholders. Two weeks into my current role I had a meeting with a prominent investor who started asking tough questions about our response to climate change. It has become clear that investors want to know what we are doing and what progress we are making in this space.
- NGOs [non-governmental organisations] turning their attention to how banks are performing on sustainability. ShareAction, for example, had been an organisation that asked (quite rightly) challenging questions at our AGMs [annual general meetings], and we had been very reactive rather than proactive in our engagement on the topic. Their first report analysing EU bank performance on climate change ranked Lloyds at the bottom of the table, behind all of our competitors. That was a significant wake-up call to the business and marked a decisive turning point for us.

- Regulators starting to ask questions and require new disclosures. Not long after our 2017 AGM the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) were published and information about the impact of climate change on our financial performance and risk management began to be required.

The UK Government's Clean Growth Strategy was also an important driver. The seven pillars of Lloyds Banking Group's business align very closely to the pillars of the Government's strategy to decarbonise the economy. It was clear that the UK's commitments would affect every part of our business, and we needed to get ahead of this if we wanted to take advantage of the clear opportunity that lies in helping to finance the UK economy through a lowcarbon transition.

Our credentials were strong on social and governance dimensions, but we were behind the curve on the environment and climate change. When we looked at all these drivers, there was no way that we could not respond. It was in 2017 that the question stopped being one of whether we should develop a Group-wide response, but became a question of the pace and strength of our response. Our commitment and resolve to act on this agenda have only grown since this point.

**LH: Did you make a conscious decision to aim for a leadership position within the sector, and if so how did you reach this decision?**

**FC:** Yes, we absolutely took a conscious decision to be a leader. It is true that we have moved incredibly fast, but that required a huge amount of time engaging the business at the beginning to understand where we were and to ensure there was ownership right across the Group. I would highlight the following in reflecting back on the journey we have been on:

1. I started by undertaking an initial, high-level review of what it means to be a 'responsible business' in the context of climate change, considering risks and opportunities for the business. I took the results of this initial review to our Executive Team and relevant Board Directors and secured their go-ahead to start looking seriously at this.
2. Building allies across the business was a really important step, working with colleagues who were experts on climate change and recognising that I was very new to sustainability. To start with this was a really small number of people who could advise on the strategic implications and also act as ambassadors within their parts of the business.
3. Having got the go-ahead to think about this and having tested the proposed way forward with these allies, we then went to our Executive Committee and Board to get their buy-in for the development of a Group-wide strategy. We had some really challenging and important discussions about how material and relevant this was to the business, which required us to ensure we were armed with credible and compelling evidence.
4. Having secured a mandate to develop a strategy, we then ran strategy workshops with every single Executive Team across all divisions of the Group. These workshops aimed to achieve two things:
  - i. Raise awareness of the key environmental trends, the underlying science, the implications for the UK economy and the drivers for the bank to respond. It was important that we brought in credible, external experts to present this in an impartial way.
  - ii. Build a collective understanding of what these trends meant for each division, its specific markets and customers, its risks and opportunities, and to start to identify some strategic priorities for the divisions to take forward.
5. At this stage, we had not yet determined an overall ambition for the Group. It was important that we gave space to the divisions to tell us what they thought the implications were for their parts of the business and share their ambitions. It was critical to the success of this process that the divisions came to their own conclusions based on the evidence that we shared with them, and the insights that we provided into what was possible based on examples of leading practice

from across a range of relevant sectors. When we heard back from the divisions, in every single case, they concluded that climate change would have a material impact on the bank. Every division went on to set a leadership ambition for their own work and we therefore concluded that, as a Group, we needed to take a sector-leading position.

6. The question then became ‘if we want to be a leader, what will our leadership ambition be?’ Maintaining our engagement with the divisions, we generated seven clear leadership ambitions about where we wanted to be positioned in the marketplace. Our work at Group level was to facilitate this and allow the divisions space to develop it.
7. Although we had clear ambition, we still didn’t have a strategy. Again, I worked with a small group of managing directors from each division to craft our Group strategy. It was a tough process to go through and really challenging to find focus. I recall spending a full weekend working to identify the ‘hooks’ that would pull together all of our ambitions. It clicked into place when we decided that, in line with our purpose to Help Britain Prosper, our strategy should be anchored to the Government’s Clean Growth Strategy and we should focus our efforts on delivering the UK’s carbon reduction targets. There are lots of things we can contribute to and be part of in support of wider sustainability imperatives – but we decided that carbon reduction was the big thing for us. That was a big moment of ‘got it’ and things began to fall into place after that.
8. It then came to how we would implement our ambition – which is where we are focused now – and there are four dimensions of this:
  - i. Understanding the opportunities. When we talk about climate change, we tend to spend a lot of time on risk but not enough time on opportunities. For me, that has always been the opening position when I engage across the business: what is the commercial opportunity? As Mark Carney, former Governor of the Bank of England, says, climate change is the biggest commercial opportunity of a generation – I believe he is right. Supporting our clients and retail customers through the transition is a huge opportunity. It is one of the key reasons we have put so much effort into doing the necessary internal work to position ourselves so that we can credibly take advantage of these opportunities.
  - ii. Integrating into the way we manage risk. We are having to work hard to better understand and mitigate climate-related risk throughout our risk management systems and structures.
  - iii. Using our institutional voice. Our unique position in the UK, and our scale and reach require us to use our voice to support progress on climate change. We are identifying the issues we can help solve because of who we are and want to be proactive in talking to government and stakeholders to co-create solutions and address barriers.
  - iv. Embedding throughout our business. We are working to align the way we work right across the business, from governance to objectives, building the necessary skills and capabilities, engaging colleagues so they become passionate and effective champions of progress. We are also addressing our operational footprint as it is really important that we ‘walk the talk’ and it is a great starting point for engaging staff and remaining credible in the eyes of our clients and customers.

### **LH: Did you face any challenges in convincing the Executive and Board to support your ambition and strategy?**

**FC:** On the contrary, we are very fortunate that we have a very supportive Executive and Board who pushed us to go further and faster.

Of course, when you are introducing a strategy, you need to be effective at influencing. During this process we did encounter challenge – including some of the science. Our approach was to ensure that everything we were presenting was backed up by strong data and analysis, but we also had to:

- listen and understand where people were coming from, what challenges they were finding with this, what questions they needed answers to; and
- approach the debates in a different way by focusing not on the causes, but on the real impacts of climate change for the business.

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**LH: What hurdles or barriers are you facing in the implementation of your strategy – and how will you overcome these?**

**FC:** We – like our peers and competitors – face a range of challenges and are working hard to address these. A few particular barriers worth mentioning are:

- If you look at climate-related risk, there is no standard framework or agreed approach. We are, therefore, spending a lot of time engaging with others across the sector and our regulators and other stakeholders, trying to work out the best way forward.
- There is also a lack of (quality?) data. When we want to undertake scenario analysis of different climate change trajectories and what they mean for our business, we find that half the time the available data is simply not there or is of very poor quality. This is really problematic and something we are working to address.
- Although there is growing demand from our business customers, we face a bigger challenge from a retail perspective. As a bank, like many businesses, we are used to providing what customers ask for. We don’t have customers asking for ‘green mortgages’, for example. Here we may have to run ahead of customer demand and work with others to help create markets.
- We also face practical infrastructure and supply chain challenges as we work to move our fleet to electric vehicles, for example – challenges of charging points, issues with the higher cost of electric vehicles, lack of availability of supply and so on.

We need to face into all of these challenges and work with others to find solutions.

**LH: Many of the organisations we work with highlight internal challenges, such as lack of resource and expertise, or lack of time to innovate. Have you had to overcome any internal barriers?**

**FC:** If I think about our journey internally, it is really interesting. This is a topic that has mobilised so many people. Usually when you work on an organisational change initiative, you spend a lot of time trying to mobilise people; that absolutely hasn’t been the issue here.

Because of the process we went through working together across the business to create a Group-wide piece of work, we already had the buy-in from the start. And frankly this is an issue that actually is our business. Responding to climate change is so core to our purpose and so material to our commercial performance, that it is now at the heart of our business strategy, and this means that we simply haven’t faced any significant internal barriers.

Of course, on a day-to-day level, there will always be prioritisation and choices about where to focus attention. But we see this as a real strategic priority for us and recognise that we have the opportunity to go much, much further.

We are still building up our expert resource as we are still at a relatively early stage in the development of our strategy and so there is the challenge of how fast you can go. But I see that as a temporary challenge given where we are, rather than an ongoing one. I think if an organisation sees the commercial relevance to the business and decides it really wants to take action, then many of the internal barriers disappear. If you are finding yourself facing barriers, you probably still have more work to do to find the alignment with the business.

### **LH: What external stakeholders are critical to the implementation of your strategy, and how are you engaging them?**

**FC:** As well as internal allies, I found that external partners were vital – I couldn't have done this without trusted partners. At the outset I wasn't an expert on sustainability, so I couldn't say to my colleagues and the Executive and Board, 'Listen to me, I know what I am talking about'. I needed to bring in external partners to work alongside me to provide the evidence, credibility and constructive challenge. CISL worked alongside me as a well-respected partner who was able to talk about this in a scientific and impartial way. It was also valuable that they were able to bring in and make introductions to people from companies leading in their sectors – for example, retail and consumer goods – who could speak eloquently and openly about how they had responded in their business, in ways that were relevant to our divisions. This was important in getting the strategy through.

It has also been valuable for us to learn from NGOs such as ShareAction and WWF, to benefit from their thinking about what is needed from our sector, and where we should be focusing our efforts.

And, of course, we have needed to build partnerships with others across government and the banking sector, including the Green Finance Institute. We are all learning and these partnerships will be critical to how effective we are going to be.

### **LH: Sometimes the companies we work with are wary of making big public commitments for fear of backlash, or fear of failure. What response have you received to your public commitment to help reduce the carbon emissions you finance by more than 50 per cent by 2030?**

**FC:** It wasn't easy putting this commitment out there. We don't quite know how we will get there and that is counter-cultural for a bank. We also know that we can't deliver it on our own. We need to work with stakeholders – our market, customers, government – as the actions required don't all sit in our space. So it was – deliberately – a very bold ambition and signal of intent.

We do also have a tradition of setting bold goals (including targets for gender and BAME [Black, Asian and minority ethnic] engagement and representation across the Group), so we know from experience that setting a big target focuses attention and, as we know, what gets measured gets done.

When we put it out, the response was overwhelmingly positive and we got very supportive reactions from a range of stakeholders. It is an important stake in the ground. We know the UK has a legally binding goal and this is us saying we are going to play our part. We are all in this together and we hope that it will inspire others to step up too.

### **LH: What lessons would you share with others who are embarking on a similar journey?**

**FC:** Leading the bank's response to climate change has honestly been one of the most interesting things I have done in my career, yet it was so new to me that it almost made my brain hurt as I didn't know what I was dealing with! It was such a huge learning curve that at times I felt

inadequate. I had always been the 'expert' in the past, but in the context of sustainability, I didn't understand the jargon and the technicalities. A really important insight learning for me was the importance of being confident enough to be open and honest about not knowing, being prepared to learn and to ask stupid questions. It is also important not to feel that you must have all the answers yourself; it is more important that you know how to access the people who do know.

Secondly, I would advise people to recognise and lean on the strengths and experience that they already have, which will almost certainly be relevant. For me the process of shaping a strategy to respond to climate change was the same as for previous strategies, it was the topic that was different. However, it is also important that you remain open to adapting. I was learning as the organisation was learning so I had to be open to 'course correcting' as I went. And as with all things, starting with the data and having an evidence-based approach is vital,

But I would also highlight the critical importance of having a few strong and trusted allies and working collaboratively with teams across the business. My little sounding board group at the beginning really helped me to learn and keep going. And everything we have achieved has been because of the efforts of a fantastic virtual team across every part of the business. Find your allies across the business and build your virtual team.

### **LH: What motivates and sustains you in your role?**

**FC:** The reason that I am in this role is because my whole career has been about change; it has been about changing things to make us a better business. When you look at the challenge of climate change, the need for change is so stark that it's a huge motivator. It gives me the drive to keep going because I know that the work I am doing will lead to the bank having a better business and it will hopefully have a massive, positive impact on society. Who wouldn't be motivated to want to make the most of this opportunity to drive things forward?



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