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United Nations Global Compact

A New Era of Sustainability

UN Global Compact-Accenture CEO Study 2010

A New Era of Sustainability

CEO reflections on progress to date, challenges ahead and the impact of the journey toward a sustainable economy.

Peter Lacy
Tim Cooper
Rob Hayward
Lisa Neuberger

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Foreword



A handwritten signature in black ink, appearing to read 'Georg Kell', written in a cursive style.

Georg Kell, Executive Director
UN Global Compact



A handwritten signature in black ink, appearing to read 'Bruno Berthon', written in a cursive style.

Bruno Berthon, Managing Director
Accenture Sustainability Services

We come together at the UN Global Compact Leaders Summit 2010 to mark a decade of progress in advancing the corporate sustainability movement globally. It is fitting that we use this occasion to understand the opinions and experiences of the member CEOs participating in the Global Compact, and use those insights to help set the sustainability agenda for the next ten years. There has perhaps never been a better moment to contribute to the debate about how, as we look to economic recovery following one of the most tumultuous periods in our history, we can start to rebuild the global economy in a sustainable way.

The timeliness of this study is matched by its breadth. Nearly 1,000 CEOs, business leaders, members of civil society and academic experts have contributed to what is the largest CEO survey on sustainability of its kind to date. The global geographic and industry coverage of contributing CEOs further provided unique insights into the challenges and opportunities of the coming decade.

It is a decade that, CEOs believe, could usher in a new era where sustainability issues are fully integrated into all elements of business and market forces are truly aligned with sustainability outcomes. The survey and conversations conducted as part of this landmark study make clear that today's CEOs are more convinced than ever of the need to embed environmental, social and corporate governance issues within core business. But they are also convinced that good performance on sustainability amounts to good business overall: The imperative to act has shifted from a moral to a business case. Furthermore, executives see significant progress in executing their plans to integrate sustainability.

Many challenges must be faced, however, before market forces can truly be aligned with sustainable development. For example, CEOs see that engaging with the investor community on new terms, improving the provision of education and skills, and measuring a new concept of value within organizations are critical conditions for change. Yet we also see a strong determination on the part of CEOs to take the necessary actions to meet these challenges.

We hope that this first-hand voice of Global Compact CEOs will help set the agenda for the Leaders Summit 2010, and also shape the conversation on corporate sustainability over the coming years. As business, government and civil society leaders convene in New York to mark the tenth anniversary of the Global Compact, we believe that we can, together, set out a compelling collective vision for the future of the global economy. As we look ahead, we recognize the scale of the challenges that we face—but also recognize the huge potential of the Global Compact as a unique platform for engaging the economy's most powerful force. If that potential is unleashed, we can build the necessary foundations of a new era of sustainability.

Introduction



In compiling the UN Global Compact-Accenture CEO Study 2010, we conducted two principal strands of research.

First, we conducted more than 100 in-depth interviews with global leaders. This included 50 CEOs, chairpersons and presidents of UN Global Compact member companies, across 27 countries and representing a broad spectrum of cross-industry perspectives. More than one-third of the interviews were from the Global Compact's original founder companies. An additional 50 interviews were conducted with other senior business executives (in most cases executive board members), civil society leaders, external experts and UN Global Compact board members. This approach has enabled us to assemble a rich and diverse set of insights, allowing us to explore, test and refine emerging themes and ideas.

Second, we conducted an online survey of 766 Global Compact member CEOs. Survey respondents were drawn from nearly 100 countries, across more than 25 industry sectors including automotive, communications, consumer goods and services, energy, financial services, metals & mining and utilities (see Figures 1 and 2). Reflecting the global split of the Global Compact membership, 439 of the respondents were from companies primarily based in Europe; 156 of respondents are from North and Latin America; 113 are from Asia Pacific. Another 58 respondents are based in Africa and the Middle East. This coverage has helped ensure a truly global multi-polar lens on sustainability issues, acknowledging the critical role that emerging markets play in solving today's global challenges.

The survey respondents were drawn from both publicly traded and privately owned companies and represent some of the largest companies in the world. Respondents represent companies that have joined the Global Compact across the ten years of its existence, giving us a snapshot of businesses both well advanced in embedding the principles of the UNGC as well as those just embarking upon that journey.

The UN Global Compact and Accenture team would like to thank Jeremy Oppenheim and Sheila Bonini—with whom I worked and who led the 2007 study for McKinsey & Company. This baseline has enabled us to draw important insights on how the sustainability picture has changed over the last three years.

We would also like to acknowledge the extraordinary contributions of the UNGC project leads Georg Kell, Gavin Power, Carrie Hall, Matthias Stausberg and Sean Cruse as well as the Accenture coauthor team of Tim Cooper, Rob Hayward and Lisa Neuberger. There have also been many further contributions from colleagues in Accenture too numerous to mention here, but without whom our analysis would not be as compelling—Mark Foster, Bruno Berthon, Dave Abood, Lay Lim Teo, Mark Spelman, Mark Purdy, Ulf Henning, Rod Kay, Lucy Cooper, Arnaud Haines, Helen Doyle and Chris Allieri deserve particular thanks.

Last—and most importantly—on behalf of the United Nations Global Compact and Accenture Sustainability Services, we would like to express our sincere thanks to the CEOs and chairpersons, business leaders and other stakeholders who have participated in the study. The project team has endeavored to understand and interpret their many ideas, reflections and case study examples in conducting the study and delivering this report. Any insights are theirs while any errors are our own.

We hope that this study provides a rich, authentic and evidence-based platform to understand CEO views on the progress, challenges and implications of the journey toward a new era of sustainability.

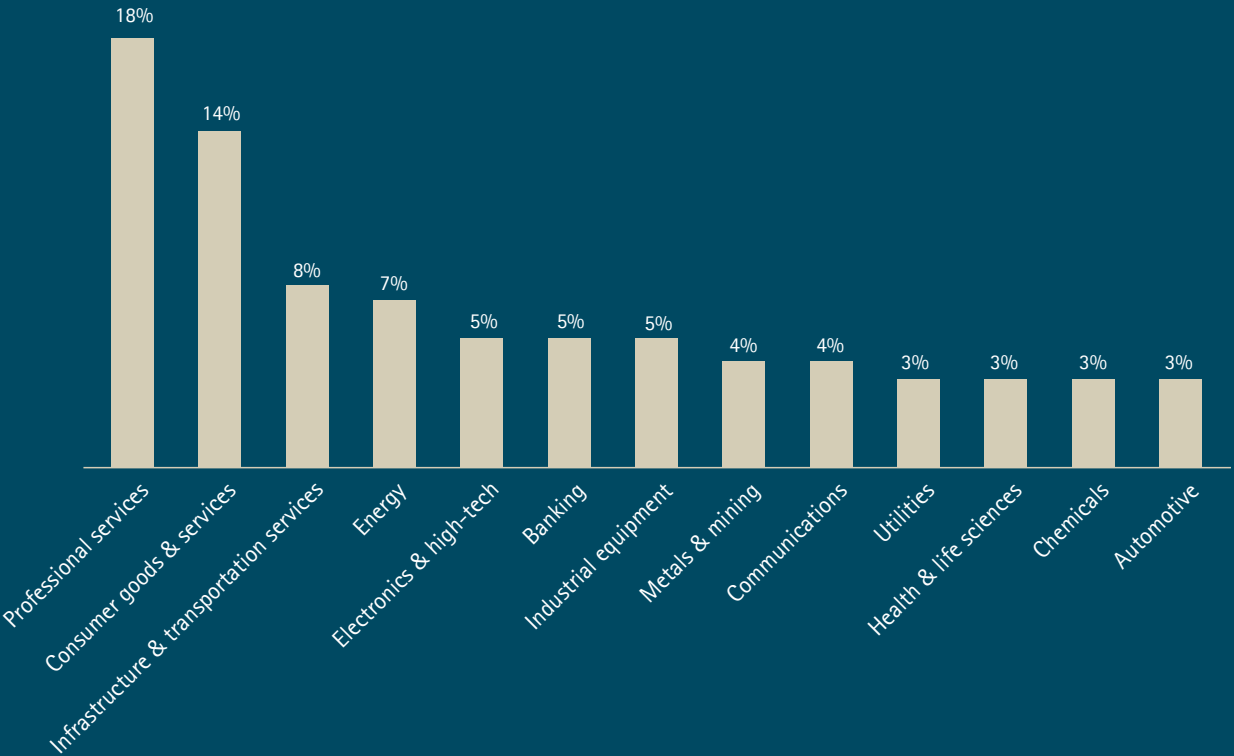
A handwritten signature in black ink, appearing to read 'Peter Lacy'.

Peter Lacy
UNGC-Accenture CEO Study Project Lead 2010
Managing Director, Accenture Sustainability Services
Europe, Africa, Middle East and Latin America

Figure 1: CEO online survey respondents (766 total)



Figure 2: CEO online survey respondents by most common industries



Acknowledgement of CEO participants

We would like to thank the following CEOs, chairpersons and presidents for their insights in shaping this study. While the views expressed in this study do not reflect the totality of opinions received from all contributing executives, their participation and guidance have been critical.



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Barbara
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President and
CEO, Calvert
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CompuMe



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De Beers



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CEO, Deutsche
Telekom AG



Paul S. Walsh,
Chief Executive,
Diageo plc.



Fulvio Conti,
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Manager, Enel
S.p.A.



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CEO, Eni S.p.A.



Steve Lennon,
Managing Director,
Corporate Services
Division, Eskom
Holdings Ltd.



Didier Lombard,
Chairman,
France Telecom



Toshio Arima,
Director, Fuji
Xerox Co., Ltd.



Andrew Witty,
CEO,
GlaxoSmithKline



Alfredo Sáenz,
Second Vice
Chairman and
CEO, Grupo
Santander



Stephen Green,
Group Chairman,
HSBC Holdings
plc.



Ignacio Galán,
Chairman & CEO,
Iberdrola



Jorge Samek,
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Hans Vestberg,
CEO, LM Ericsson



Martha Tilaar,
Chairwoman &
Founder, Martha
Tilaar Group



Steve Holliday,
Chief Executive,
National Grid



Sam I. Ohuabunwa,
President and
CEO, Neimeth
International
Pharmaceuticals
Plc.



Paul Bulcke, CEO,
Nestlé S.A.



Svein Richard
Brandtzæg,
President and
CEO, Norsk
Hydro ASA



Daniel Vasella,
M.D., Chairman,
Novartis AG



Wolfgang J.
Ruttenstorfer, CEO
& Chairman, OMV
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Mavi S. Isibor,
CEO, Poise
Nigeria Limited



Prida Tiasuwan,
Chairman,
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PCL



Luiz Ernesto
Gemignani,
Chairman,
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H.E. Akbar
Al Baker, CEO,
Qatar Airways



YS Chi,
Vice-Chair, Reed
Elsevier Group
plc



Carlos Ghosn,
Chairman & CEO,
Renault Nissan
Alliance



Adam Crozier,
CEO, Royal Mail



Gerard J.
Kleisterlee,
President & CEO,
Royal Philips
Electronics



Helmy Abouleish,
Managing
Director, SEKEM
Group



Ernst Bärtschi,
CEO, Sika Group



Tae-won Chey,
Chairman & CEO,
SK



Idar Kreutzer,
Group CEO,
Storebrand ASA



Sung-joo Kim,
Chairperson and
CEO, Sungjoo
Group



Yasuchika
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President and
CEO, Takeda
Pharmaceutical
Company



PM Telang,
Managing
Director, Tata
Motors



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Steel



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The Timberland
Company



Kaspar Villiger,
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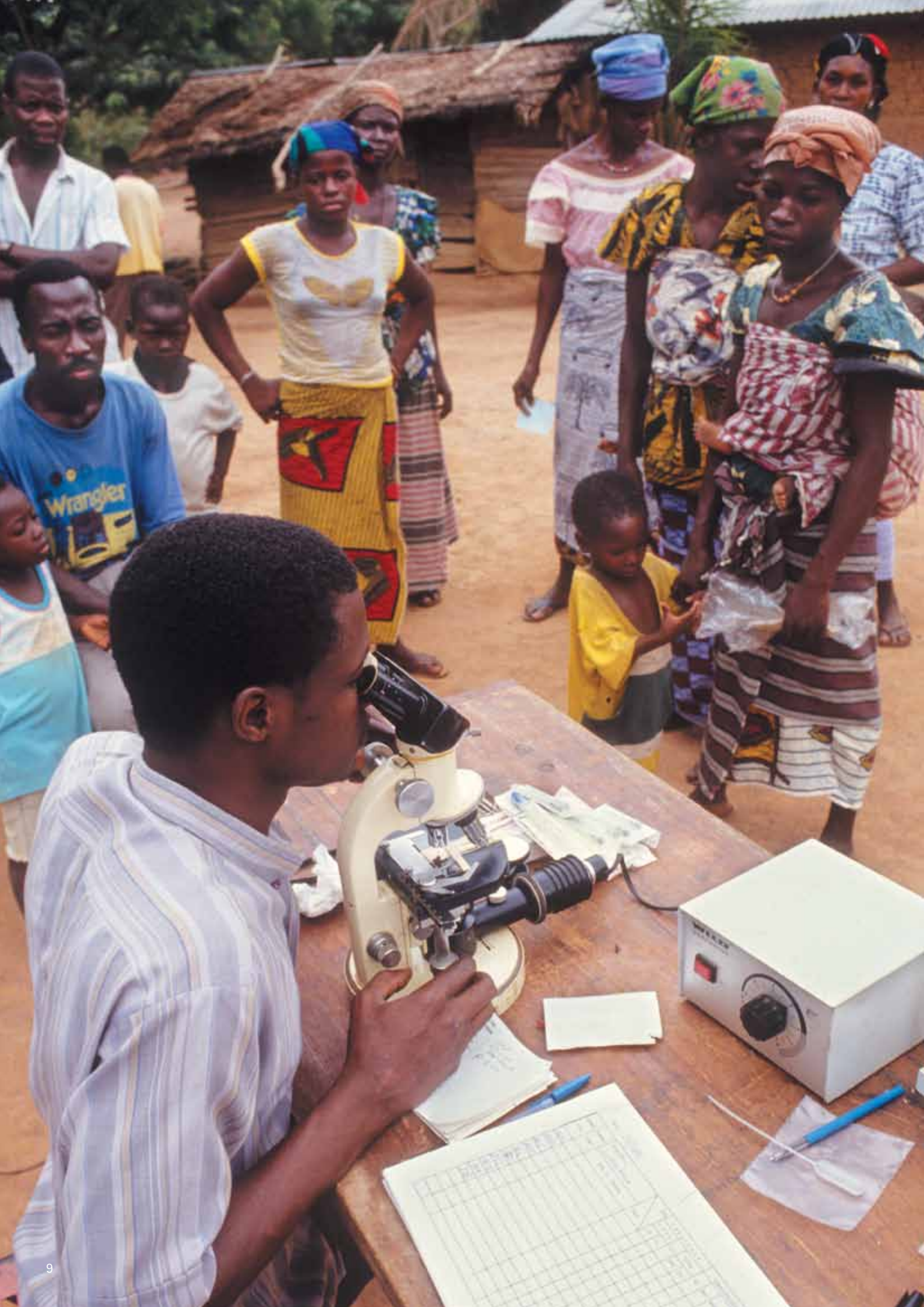
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Executive summary

Journey to a new era of sustainability

The sustainability landscape is changing

CEOs around the world are starting to see the shape of a new era of sustainability coming into view. In the face of rising global competition, technological change and the most serious economic downturn in nearly a century, corporate commitment to the principles of sustainability remains strong throughout the world: 93 percent of CEOs see sustainability as important to their company's future success.

This is one of the most significant headlines of our survey of 766 United Nations Global Compact (UNGC) member CEOs, extensive interviews with an additional 50 member CEOs and further interviews with more than 50 business and civil society leaders. The scale of this research is such that it represents the largest such study of CEOs ever conducted on the topic of sustainability.

In the course of our survey and conversations with CEOs, we have witnessed a fundamental shift since the last Global Compact survey in 2007. Then, sustainability was just emerging on the periphery of business issues, an increasing concern that was beginning to reshape the rules of competition. Three years later, sustainability is truly top-of-mind for CEOs around the world. While environmental, social and governance challenges continue to grow and CEOs wrestle with competing strategic priorities, sustainable business practices and products are opening up new markets and sources of demand; driving new business models and sources of innovation; changing industry cost structures; and beginning to permeate business from corporate strategy to all elements of operations.

After the storm: Rebuilding trust

Demonstrating a visible and authentic commitment to sustainability is especially important to CEOs because it is part of an urgent need to regain and build trust from the public and other key stakeholders, such as consumers and governments—trust that was shaken by the recent global financial crisis. Strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues, identified by 72 percent of CEOs. However, CEOs often assume that their own company is more respected and trusted than their industry in general—leading to a real concern that executives may underestimate the extent to which mistrust in business continues to be an issue in the public mind.

The drivers and approaches to sustainability are changing

In 2007, education was the top development issue on the minds of CEOs. Concerns about education are still prevalent in 2010 and focused on the failure of education systems, talent pipelines and the capabilities of future leaders to manage sustainability. Seventy-two percent of executives identified education as one of the critical development issues for the future success of their business. Perhaps unsurprisingly, climate change was second at 66 percent as concern about greenhouse gas emissions continues to grow. However, in our conversations with CEOs, we found that a broader set of issues are starting to appear on the corporate

radar. Resource scarcity (water in particular) and health issues are of increasing concern.

The ways in which CEOs are addressing sustainability issues are also changing. Our research reveals three key ways in which approaches and strategies are shifting as we move toward a new era of sustainability:

1. The consumer is (or will be) king

End consumers as well as business and government customers are increasingly driving a company's strategy for developing sustainable products and services. CEOs identify the consumer as the most important stakeholder in influencing the way in which they will manage societal expectations over the next five years: 58 percent of survey respondents selected the consumer among their most important stakeholders, even above employees (45 percent) and governments (39 percent).

2. Importance of technology and innovation

CEOs are aware of the critical role that innovative, leading-edge technologies are playing in advancing the sustainability agenda—in areas such as climate change (e.g., using smart technologies such as grids and meters); and in terms of increased transparency through social media platforms. Ninety-one percent of CEOs reported that their company would employ new technologies (e.g., renewable energy, energy efficiency, information and communications technology) to help meet their sustainability goals over the next five years.

3. Collaboration is critical

Across the board, the CEOs we spoke to confirmed that partnerships and collaboration (e.g., with suppliers, non-governmental organizations, government agencies, etc.) are now a critical element of their approach to sustainability issues. Businesses realize that today's global challenges are too broad and too complex to go it alone. Seventy-eight percent of CEOs believe that companies should engage in industry collaborations and multi-stakeholder partnerships to address development goals. Nevertheless, while CEOs believe civil society is an essential partner in tackling these issues, they believe non-governmental organizations (NGOs) are declining in their influence on corporate sustainability agendas. Just 15 percent of CEOs identified NGOs as one of the key stakeholders influencing their approach to sustainability, down 12 percent from 2007.

A new sustainability era on the horizon

Our survey found widespread agreement among CEOs about what the next era of sustainability will look like: It is one where sustainability is not only a separate strategic initiative, but something fully integrated into the strategy and operations of a company. As one emerging economy CEO told us, "Currently, the burning issue is how to better incorporate sustainability into daily practice."

CEOs see that a new era of sustainability will entail a number of business imperatives and change the face of competition. For example, companies will need to develop a broader sense of what value creation means to society as a whole.

Businesses will have to grapple with a new concept of value that moves beyond a focus purely on profit and incorporates nonfinancial metrics, putting a new onus on the ability to measure and communicate progress.

CEOs also acknowledge that a new generation of leadership, and concerted efforts to shape a corporate culture supportive of the goals of sustainability, must underpin success in the new era. In other words, today's business environment provides a multitude of new challenges to manage, but also significant opportunities for those who can master its dynamics.

Challenges to overcome: From strategy to execution

CEOs believe that *execution* is now the real challenge to bringing about the new era of sustainability. Confidence among business leaders about their progress toward this new era is strong, and their companies are taking concrete steps toward embedded sustainability. Eighty-one percent of CEOs—compared to just 50 percent in 2007—stated that sustainability issues are now fully embedded into the strategy and operations of their company. For example, we saw cases of companies beginning to integrate sustainability issues into their executive compensation packages, as well as design and innovation functions, more than in 2007.

However, our conversations suggest that while sustainability has clearly become part and parcel of how many businesses operate, it has yet to permeate all elements of core business—that is, into capabilities, processes and systems. In particular, the difficulty of implementation, especially across supply chains and subsidiaries, is seen by CEOs as the top barrier to the full integration of sustainability. Our research finds a significant performance gap between those CEOs who agree that sustainability should be embedded throughout their subsidiaries (91 percent) and supply chain (88 percent), and those who report their company is already doing so (59 percent and 54 percent, respectively). Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains some way off.

Ensuring the right external conditions

How long will it take before the majority of companies worldwide reach this new era in which sustainability is fully integrated across their global business footprint? Fifty-four percent of CEOs surveyed feel that this tipping point is only a decade away—and 80 percent believe it will occur within 15 years—an optimistic view unthinkable in 2007 and testament to the sea-change taking place. However, CEOs see that progress toward that destination is by no means guaranteed, or irreversible, and will require them to overcome several serious challenges, both through their own actions and in collaboration with stakeholders. These challenges include:

Investor uncertainty: Many CEOs believe that the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor performance on sustainability issues into valuation models.

Consumer uncertainty: The consumer may be king when it comes to driving profitable sustainability, but the CEOs surveyed are looking for clearer signals that sustainability actually drives buying behaviors. Similarly, they are unclear as to the extent to which sustainability concerns will drive purchasing decisions by businesses and governments.

Regulatory uncertainty: Across the board, CEOs spoke of the need for greater clarity around the shape and scope of future regulation in response to regulatory challenges.

Accelerating the tipping point: Business action is needed

In order to overcome these challenges and accelerate a tipping point in the integration of sustainability into core business, CEOs believe that a number of “must-have” conditions need to be put in place. Businesses need to take a leadership role to bring them about, often in collaboration with wider stakeholders such as the UN Global Compact:

1. Actively shaping consumer and customer awareness, attitudes and needs. To create a market for sustainable products and services, CEOs see the need to increase the provision of consumer information and set clear standards, as well as direct government incentives and investment in areas such as energy, transport and public infrastructure.

2. Generating new knowledge, skills and mindsets for sustainable development. Although businesses believe that formal educational institutions and business schools need to do more, CEOs also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.

3. Leading the creation of an investment environment more favorable to sustainable business. CEOs need to be more proactive in engaging with investors to ensure that the value of sustainability activities can be demonstrated through traditional metrics such as cost reduction and revenue growth.

4. Embedding new concepts of value and performance at the organizational and individual levels. Businesses will need to measure both positive and negative impacts of business on society, track and manage sustainability's impact on core business drivers and metrics, and embed sustainability in individual performance frameworks for managers across their organizations (e.g., through remuneration packages).

5. Creating a clearer and more positive regulatory environment for sustainability. To avoid the unintended consequences of regulation, build trust and provide a more informed basis for policymaking, businesses should adopt a more proactive and collaborative approach with governments to seek out genuine opportunities for business and societal benefit.

The role of the UN Global Compact: A forum for education and sharing of best practices

CEOs are more aware than ever that their ability to take the next step along the journey to integrated sustainability depends on partnerships, collaboration and joint efforts with governments and with private entities such as business schools. No one alone has all the answers.

The UN Global Compact has a vital role to play in bringing different stakeholders together in dialogue and the pursuit of shared goals. This represents a significant development in 2010 compared to the last survey in 2007. Then, CEOs saw the UNGC's role as one primarily focused on making the business case for sustainability and setting future strategic direction. While executives still see this role as important, in 2010 that role has been extended to help companies share best practices as they work to improve their ability to deliver on these critical execution challenges.

Two-thirds of the CEOs we surveyed are looking to the UNGC as a forum for the sharing of best practices and emerging ideas on sustainability. Just over half are also seeking guidance from the UNGC about execution of a sustainability strategy.

A similar number are looking for the UNGC to facilitate other kinds of dialogue and collaboration, such as working with business schools and educators to shape the next generation of leaders or continuing to partner with the investment community. Both of these findings are a strong reinforcement of the value of the UNGC's pioneering work in founding the Principles for Responsible Management Education and the Principles for Responsible Investment, and a mandate to go further.

These findings underscore the fact that companies are taking the long view when it comes to sustainability. There are no easy answers, and the journey will not necessarily be a short one. But, arguably, the modern era has never before seen such a high level of executive commitment to the environmental, social and corporate governance agenda.

UNGC member CEOs are acutely aware of the power their companies have to change the world—but similarly conscious that they cannot go it alone.

Executives are willing to step up to the challenges ahead and they recognize that—as the Global Compact celebrates its tenth anniversary—this is “the end of the beginning” and not “the beginning of the end” in the transition to a new era of sustainability.

CEO opinion: by the numbers

93%

93% of CEOs believe that sustainability issues will be critical to the future success of their business.

72%

72% of CEOs cite “brand, trust and reputation” as one of the top three factors driving them to take action on sustainability issues. Revenue growth and cost reduction is second with 44%.

72%

72% of CEOs see education as the global development issue most critical to address for the future success of their business. Climate change is second with 66%.

58%

58% of CEOs identify consumers as the most important stakeholder group that will impact the way they manage societal expectations. Employees were second with 45%.

91%

91% of CEOs report that their company will employ new technologies (e.g., renewable energy, energy efficiency, information and communication technologies) to address sustainability issues over the next five years.

96%

96% of CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company (up from 72% in 2007).

49%

49% of CEOs cite complexity of implementation across functions as the most significant barrier to implementing an integrated, company-wide approach to sustainability. Competing strategic priorities is second with 48%.

88%

88% of CEOs believe that they should be integrating sustainability through their supply chain. Only 54% believe that this has been achieved within their company. An almost identical performance gap is seen for subsidiaries.

86%

86% of CEOs see “accurate valuation by investors of sustainability in long-term investments” as important to reaching a tipping point in sustainability.

64%

64% of CEOs see the most important role of the UN Global Compact as sharing examples of best and emerging practices on sustainability. Guidance on implementation is second with 51%.



Chapter 1

Shifting gears: Sustainability is changing

CEOs' belief in the importance of sustainability is stronger than ever, in spite of the recent economic downturn

In 2010, CEO support for corporate sustainability is nearly unanimous. Ninety-three percent of the 766 CEOs responding to our online survey believe that sustainability issues will be important or very important to their future success. Corporate commitment to sustainability, according to the survey, has increased considerably since 2007. "Sustainability now has to be on everyone's agenda, and that represents a fundamental change," according to Klaus Kleinfeld, Chairman and CEO of Alcoa, one of the largest aluminum producers in the world. This belief in sustainability is seen against the backdrop of the most challenging global economic downturn of our lifetimes—a crisis Alfredo Sáenz, CEO of banking group Santander, called a "perfect storm for the industry."

The global economic downturn might have been expected to weaken the commitment to environmental, social and corporate governance issues (see sidebar, "Understanding the Scope of Sustainability"). In fact, it seems to have had the opposite effect: 80 percent of CEOs believe that the economic downturn has raised the importance of sustainability as an issue for top management. Just 12

percent of CEOs report that their company has reduced investment in sustainability as a result of the downturn—and 74 percent say that the downturn has led their company to align sustainability more closely with core business. Although some CEOs believe that the downturn has reduced the speed at which they have been able to integrate their strategies for sustainability, or slowed their philanthropic activities, the vast majority agree that the downturn has not derailed their long-term plans to drive a sustainability agenda.

One reason for this continued support is that, during such a time of hardship, businesses have been forced to examine closely how their sustainability activity delivers core business value, measured in terms such as cost reduction and revenue growth. As one European business leader pointed out, "If managing a business sustainably is about using resources efficiently, then it serves the cost agenda as well." For example, Dow Chemical has generated significant savings by reusing treated wastewater in its manufacturing plants, reducing energy consumption in its Benelux plant by 65 percent. This is the equivalent of reducing carbon dioxide emissions by 60,000 tons per year.¹ Deutsche Telekom has realized savings of €50 million (US\$59.6 million) per annum over the last ten years through increased energy efficiency and other overhead reduction measures.²

Understanding the scope of sustainability

Throughout this report, we use the term "sustainability" to encompass environmental, social and corporate governance issues, as embodied in the United Nations Global Compact's Ten Principles.

These ten principles, covering areas of human rights, labour, the environment and anti-corruption, enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, these ten principles:

Human Rights

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2

Make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4

The elimination of all forms of forced and compulsory labour;

Principle 5

The effective abolition of child labour; and

Principle 6

The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7

Businesses should support a precautionary approach to environmental challenges;

Principle 8

Undertake initiatives to promote greater environmental responsibility; and

Principle 9

Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery.

Also bolstering the continued commitment to sustainability during the economic downturn has been demand for sustainable products and services. Although one business leader reported increased volatility in consumer interest and spending, others have seen the downturn accelerate demand for green products and services. This growth in demand spans traditional consumer segments, but also business-to-business transactions and government spending decisions.

For example, Siemens—a leader in providing products that allow their customers to address energy efficiency challenges—experienced strong demand for its green products throughout the downturn. Its “Environmental Portfolio” encompasses almost all relevant areas relating to the generation, transmission, distribution and use of energy as well as other environmental technologies. In 2009, Siemens generated revenues of €23 billion (US\$28 billion) from this portfolio of products and services, an 11 percent increase from 2008 and nearly one-third of Siemens’ total annual revenues. Last year alone, Siemens helped customers cut approximately 210 million tons of CO₂ emissions—the equivalent of the annual emissions of Berlin, London, Munich, New York and Tokyo combined.³

Geographic perspectives: Belief in the relevance of sustainability differs according to region—but not always in predictable ways

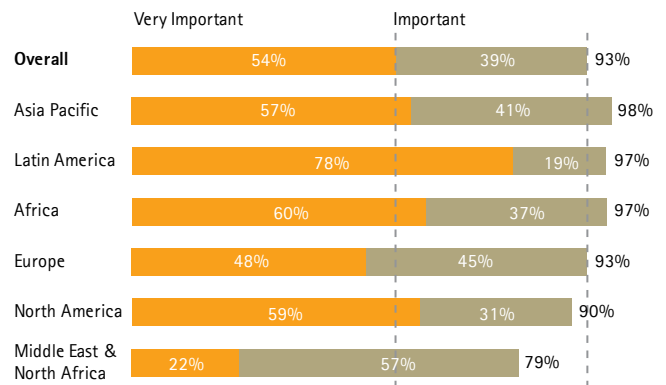
Large majorities of CEOs from every nation see sustainability as important or very important to the future success of their business. In the words of Hirokazu Hashimoto, President and Director of the Japanese technology company Anritsu Corporation, “Sustainability issues are critically important for our company’s future,” recognizing the role that the communications and high-technology sector will play in helping business and consumers address sustainability issues.

Closer scrutiny of the geographic data, however, reveals some significant differences among CEOs in different regions of the world (see Figure 1-1).

The top three regions in which businesses cite sustainability as most important to their future success are Asia Pacific, Latin America and sub-Saharan Africa. This may reflect what one business leader termed the “lens of proximity” of sustainability issues. That is, corporations and the public alike in these emerging economies see sustainability in very personal, local and immediate terms—e.g., access to clean water, more direct dependence on the natural environment—and therefore perceive their future success to be more directly threatened by environmental degradation. However, in the Middle East and North Africa, only 22 percent of CEOs believe that sustainability issues will be critical to future success. As one CEO in the region told us, “Sustainability is not a common theme in our part of the world—it’s a new concept altogether.”

Figure 1-1: CEOs see sustainability as critical to their future success, but this varies by region

How important are sustainability issues to the future success of your business?



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

In Latin America, 78 percent of CEOs believe that sustainability issues will be very important to the success of their business, reflecting the progressive stance taken by many Latin American companies. For example, tapping into the strong concern among Brazilian consumers and society as a whole around sustainability issues, Natura Cosméticos, a US\$2.3 billion revenue São Paulo-based cosmetics and beauty products company, has social and environmental issues at the core of its strategy and operations.

Natura only invests in new product platforms based on the sustainable use of natural resources, with 80 percent of the materials in all their products coming from renewable plant sources. This includes its “Ekos” range, which is made with resources from the rich Brazilian biodiversity extracted in a sustainable way and through fair trade. The company has established partnerships with rural suppliers to promote sustainable research and development. It is significantly increasing its investment in its workforce, training and educating its employees on environmental issues: Spending on training rose by 44 percent between 2008 and 2009 and in 2010 the company aims to provide 100 hours of training per employee. It also encourages its direct sales force of 1 million women to take part in social programs in local communities—helping to achieve an exceptionally low level of employee turnover (7.5 percent per year) within the industry.

Placing sustainability at the core of its business strategy has given Natura a significant advantage in promoting its brand and reputation, and has helped the company to grow from a small local enterprise to become Brazil’s largest cosmetics firm. Revenues have grown by nearly 40 percent over the last three years—bottom-line growth by 44 percent over the same period. The quality of its relationships with customers and its innovative distribution channel means Natura has been able to consistently outperform its industry peers.⁴

Industry perspectives: Belief in the importance of sustainability varies considerably by industry

CEOs' belief in the importance of sustainable business practices and products to their success is strong across all industries surveyed—though with some significant differences (see Figure 1-2). Fully 100 percent of automotive CEOs identify sustainability issues as important or very important to their future success. This finding reflects how environmental concerns present both a challenge to the industry and an opportunity to serve a new market with low-carbon alternatives such as e-vehicles. Given the decline of some high-profile players in the automotive industry during the economic downturn, matters of long-term viability are, not surprisingly, occupying the minds of CEOs in this sector.

CEOs from the energy and utilities sectors also see sustainability issues as critical to their future success. Wolfgang J. Ruttenstorfer, CEO and Chairman of European oil and gas company OMV, said, "I regard these issues as bringing competitive advantage in the long term; a transparent approach clearly oriented toward values, human rights and environmental objectives is the only right approach that will be appreciated in the long term." To ensure OMV is aligned with this long-term positioning and future value, in 2006 it established the OMV Future Energy Fund, a wholly owned subsidiary to support projects in renewable energy. The fund holds more than €100 million (US\$122 million) to initiate the shift from a pure oil and gas group to an energy group with renewables in its portfolio. Already numerous projects are underway in the field of biomass gasification, bioethanol, biodiesel, geothermal energy and carbon capture and storage. The aim is for the fund to reach a total of €500 million (US\$609 million), which would constitute more than one-fifth of the company's annual capital expenditure.⁵

The importance of sustainability to industries not traditionally associated with significant environmental and social impacts is also clear from the survey. Support is especially high in the banking industry, for example: 68 percent of CEOs note that sustainability is "very important" to their success—a number matched only by the energy and utilities industries. Although the banking supply chain may be less intimately connected to the natural environment than that of an energy company, a commitment to environmental and social issues may be a prominent part of restoring brand value as the financial industry struggles to regain the trust of consumers.

For banks, sustainability also presents risks and opportunities to asset values and investment portfolios. For example, Goldman Sachs' SUSTAIN index, launched at the UN Global Compact Leaders Summit in 2007, is part of a growing trend of investment banks and financial institutions quantifying the strategic implications of sustainability trends on asset values. Other banks are looking to create advantage in financing growth markets such as the transition to a low-carbon energy infrastructure. For example, Italian banking

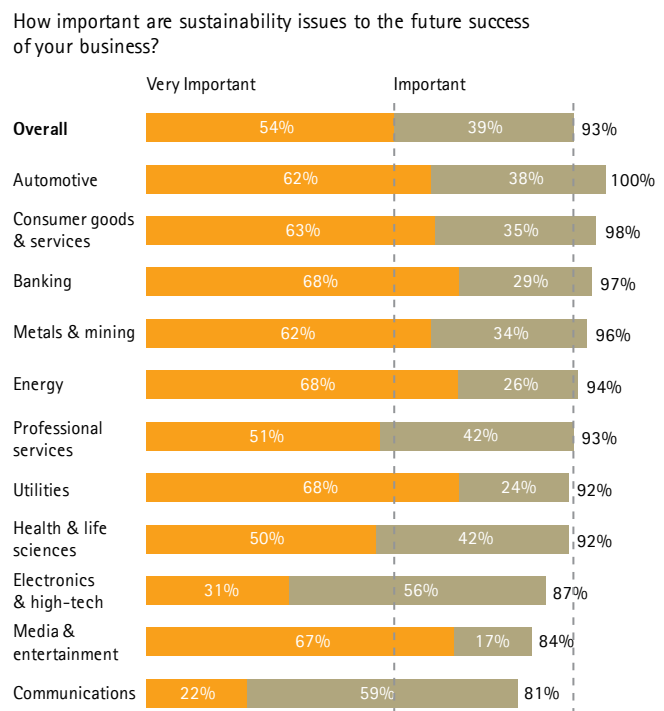
giant UniCredit S.p.A. has a portfolio of €4 billion (US\$4.8 billion) in loans for renewable energy projects, mainly in wind farms, photovoltaic, solar thermal and biomass installations.⁶

According to our survey, CEOs in the communications and electronics & high-tech sectors are the least likely to identify sustainability issues as critical to their future success—just 22 percent and 31 percent of those industries' CEOs, respectively, cite sustainability as very important to their future success. This may reflect the limited degree to which these sectors see themselves as affecting the environment in terms of their carbon footprint.

However, leading companies in these sectors are beginning to think beyond the direct physical impacts of their business on sustainability issues, and are looking to shape a vision of the role that they can play in society by driving sustainable development. Some of the leading communications and high-tech CEOs we spoke with, from companies such as Alcatel-Lucent, Deutsche Telekom, Nokia and Philips, believed that they could act as a significant part of the solution to sustainability challenges, providing companies around the world with new technologies and ways of working that will help them achieve their own environmental objectives.

As Accenture's recent study with Vodafone, "Carbon Connections," demonstrated, growth in wireless-enabled machine-to-machine technology within smart grids, smart logistics and smart manufacturing, as well as virtual communications could save customers €43 billion (US\$52 billion), require 1 billion new connections and save 113 million tons of carbon per year by 2020 in the European Union alone.⁷

Figure 1-2: The extent to which CEOs believe sustainability will be important to their success varies significantly by industry



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

An important motivating factor: Rebuilding trust in business

Far and away, the most commonly cited factor motivating CEOs to take action on sustainability issues is brand, trust and reputation, selected by an exceptionally high 72 percent of CEOs as one of their top three factors—followed by revenue growth and cost reduction (44 percent), personal motivation (42 percent) and consumer/customer demand (39 percent) (see Figure 1-3). The message from CEOs was loud and clear on the imperative of regaining and rebuilding trust. As Didier Lombard, Chairman of France Telecom, told us, "Sustainability is essential to building our brand and our trust with consumers."

Sustainability has long been viewed as one of many elements in companies' strategies to build their market reputation. This may mean developing products and services such as micro-finance or renewable energy that directly tackle global social and environmental problems; it might mean ensuring sustainable production processes for existing product lines; or it could mean more corporate social responsibility-type initiatives designed to be seen to "give back" to society and put a human face on business.

However, the economic downturn—and particularly the perception that business, and banking in particular, may have played a role in precipitating the financial crisis—has brought the issue of trust into sharper focus. In the words of the chairman of one of the world's largest banking groups, "Trust in banks in general has been badly damaged by the events of the financial crisis and it cannot be rebuilt overnight." Echoing this sentiment, Kaspar Villiger, Chairman of global financial services company UBS AG, told us: "We have lost trust, and we need to regain it with a culture of responsible behavior."

The fallout from the global financial crisis in terms of trust is not only being felt in the financial services sector. Across the board, CEOs appear to be united in their recognition of the problem that, as one business leader in the consumer goods sector put it, "The scarcest of all the resources is trust." There was a strong sense in our conversations that business leaders appreciate the scale of the challenge in reestablishing confidence in the corporate community. As Steve Holliday, CEO of global utility provider National Grid, told us, "To make the transition to a new era, we need a lot of trust in the system—and we're not in that place right now." As one European pharmaceutical executive told us, "In a situation where you lack trust, you simply have to change." This sentiment is borne out by independent analysis: Edelman Trust Barometer 2009 found that public trust in business had declined to just 38 percent in the United States, down from 58 percent the year before. Similarly, two-thirds of respondents in nine European Union countries reported that they were less trusting of business in 2009 than at the same time the year before.⁸

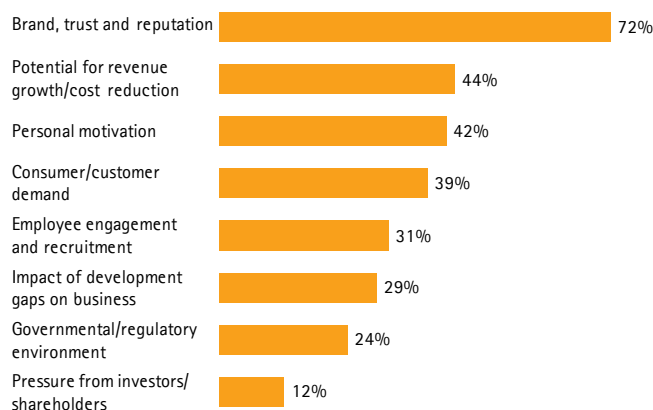
Regaining trust is therefore critical, according to CEOs, who believe that a competitive advantage can be achieved by businesses that are able to effectively build and maintain

trust. For example, in 2008, 91 percent of consumers said they had bought a product or service from a company they trusted, whereas 77 percent had refused to buy a product or service from a distrusted company.⁹ Maintaining a strong brand and reputation based on trust is therefore a key source of competitive advantage.

Figure 1-3: CEOs cite brand, trust and reputation as the primary motivation in taking action on sustainability issues

Which factors have driven you, as a CEO, to take action on sustainability issues?

Respondents identifying each factor in their top three choices



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Businesses are now developing more sophisticated approaches to measuring and quantifying the impact of trust across their organization, and to more accurately identifying those levers that can affect levels of trust.

As they develop new metrics, CEOs are beginning to identify trust as a key element in building future value. For example, global health care company GlaxoSmithKline (GSK) has a vision of a different pharmaceutical industry with a much greater emphasis on building trust and tackling big questions for the sector such as access and affordability of medicines. As CEO Andrew Witty told us, "To be a successful and sustainable business, we must fulfil our social responsibilities and build trust with our stakeholders." At GSK, this has meant fundamentally rethinking the approach to intellectual property and pooling patents for neglected tropical diseases, as well as GSK's pricing strategy for drugs in emerging and least-developed countries, which aims to drive better access to and affordability of critical medicines. For example, in the Philippines, a 60 percent price cut in cancer vaccine Cervarix increased sales by around 600 percent.¹⁰ This focus on building trust is also being integrated into GSK's core business strategy and the roles and responsibilities of managers across the organization. For example, a Regional and General Manager Trust Framework is being rolled out across the business to support leaders in finding win-win solutions that benefit the business, stakeholders and patients.

Building trust is a significant challenge for corporations

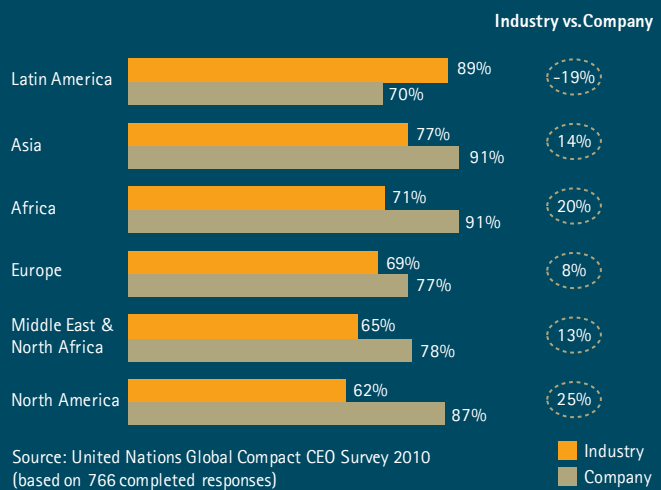
Our survey data suggests that CEOs, at an individual level, may not fully grasp the extent of the trust challenge (see Figure 1-4). Globally, 73 percent of CEOs believe that their industry is trusted by the public and other stakeholders, but 79 percent believe the same of their own company. Apart from those in Latin America, CEOs across the globe appear to believe that their companies are more trusted than their industries.

For example, in North America 62 percent of CEOs believe that their industry is trusted by the public and other stakeholders, but fully 87 percent believe that their company is trusted. At the industry level, the story is perhaps more predictable. The metals and mining sector and the banking industry accounted for the lowest proportion of CEOs who believed their industry was trusted (55 percent and 66 percent, respectively).

It is not yet clear, however, to what extent business leaders see their own role in rebuilding a more trusted position for business in society—or whether they feel that individual action can address a global environment that sees some stakeholders ask serious questions about the purpose of business.

Figure 1-4: CEOs in most regions believe that their companies are more trusted than their industries

My industry/company is trusted by public and stakeholders
Respondents answering "Agree" or "Strongly Agree"



As they move beyond the constraints of focusing solely on financial performance, CEOs envisage a future in which building stakeholder trust will sit at the heart of their companies' strategic agenda, and will be driven by specific, measurable activities and objectives.

Sustainability issues are changing: Education and climate change are top-of-mind

It is clear from our conversations with CEOs that they are united in their belief in the importance of sustainability, and determined to be part of the solution—but what do they mean by "sustainability," and which issues are uppermost in their minds? The breadth and complexity of sustainability issues are increasing and they are increasingly tied to future business success. As Gerard J. Kleisterlee, President and CEO of multinational Royal Philips Electronics, told us, "Whichever angle you come from, you try to meet a need of a community or an economy, both from an economic perspective and from a development angle."

The scope of sustainability varies significantly by industry, often driven by those environmental, social and governance issues on which the industry has greatest impact. While health may be top-of-mind for executives in the pharmaceutical industry, human rights is a particular concern for CEOs in the metals and mining industries, not least due to some of the markets in which they have to operate. For example, Norwegian aluminum and renewable energy company Norsk Hydro ensures that, when operating in countries where the right to form trade unions is restricted (such as China and Qatar), alternative forums are found to uphold employees' rights and influence their work situation.¹¹

At an aggregate level, CEOs see education and climate change as the issues most critical to the future success of their businesses (see Figure 1-5). As the CEOs from our survey look to the future, the global development challenge they see as most critical to their future success is the education of citizens in sufficient numbers and with high enough quality for three purposes in particular. First, to ensure sustained economic development; second, to create a steady supply of talent to renew their workforce capabilities; and third, to equip current and future leaders and employees—and those from other sectors such as government and civil society—with the ability to manage sustainability issues as part of core business.

To meet this challenge requires a broad range of responses, from early-intervention programs in schools and better employee re-skilling programs, to new partnerships with governments, universities and business schools. For example, when UK telecommunications company BT Group partnered with UNICEF to launch the initiative "Inspiring Young Minds," it was responding to the need to educate and develop skills of the next generation in key markets that would sustain the company's future success. The program has so far

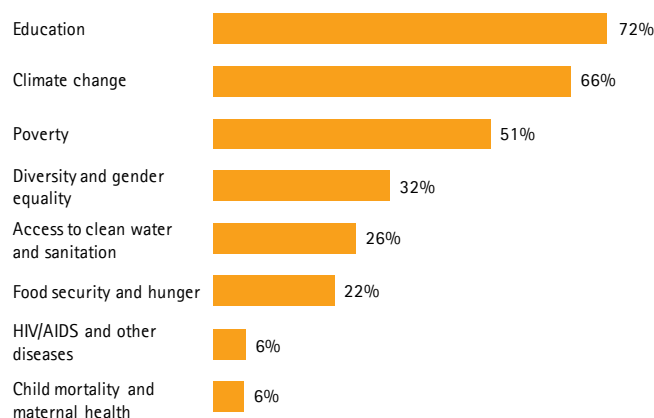
invested £1.5 million (US\$2.2 million) globally with the goal of bringing education, technology and communication skills to children from disadvantaged backgrounds in three key growth markets for BT: Brazil, China and South Africa.¹²

The second development issue identified as most critical to future business success by CEOs is climate change. Increasingly, responding to climate change is seen not only as a means of managing risk but also an opportunity for growth, capitalizing on the growing demand for products and services that address environmental concerns. For example, when Eskom Holdings Ltd., the South African utilities company, decided to shift its energy generation mix toward renewable energy, it was responding to the pressures brought about by climate change and the future resource constraints that threaten its long-term growth. It also was acknowledging, at the same time, a significant opportunity to lead in a growth market. Traditionally a coal-dominated utility, Eskom is now shifting its strategy toward renewables with the aim of reducing the amount of coal in its generation mix from the current 88 percent to 70 percent by 2025.¹³ In particular, it is investing heavily in concentrated solar power and wind farms with the help of a recent US\$750 million loan from the World Bank, allocated for renewable and energy efficiency projects.¹⁴

Figure 1-5: CEOs see education as the global development challenge most critical to the future success of their business

Which of the following global development issues are the most critical to address for the future success of your business?

Respondents identifying each factor in their top three choices



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Health and resource scarcity are on the horizon

Looking ahead, the future issues that CEOs highlighted in our conversations as starting to appear on the horizon were health and resource scarcity, with water in particular emerging as a concern. This broader understanding of sustainability issues will provide new battlegrounds in areas such as ecosystem services—for example, creating markets for the preservation of jointly shared global resources.

Already we are starting to see a growing awareness among CEOs of the global value of environmental assets and ecosystems. Jorge Samek, Director General of Brazilian hydroelectricity company Itaipu Binacional, told us: "Some countries have already driven high levels of consumption through a banquet of their resources. We have to find a balance that preserves resources as well as economic development." And in the words of Helmy Abouleish, Chairman of North African agricultural company the SEKEM Group, which promotes organic farming practices and carbon emission reduction projects: "The only long-term sustainable way of development is in harmony with the environment and with a high level of social responsibility." There is a growing sense among CEOs that the transition to a new era of sustainability will go far beyond carbon and climate change as an environmental issue, spanning water, waste, biodiversity and ecosystems services. Their views are corroborated by independent analysis. The Economics of Ecosystems and Biodiversity (TEEB) study, which will be published shortly, has already concluded that business as usual is not an option if we are to safeguard natural resources: By 2050, 7.5 million square kilometers of natural areas (11 percent of the total area in 2000) are expected to be lost as a result of conversion to agricultural land as well as the expansion of infrastructure and by climate change.¹⁵

The way businesses address sustainability issues is also changing

While sustainability issues have perhaps rarely been more important, an additional challenge for CEOs is in the way businesses need to address sustainability issues. This changing landscape presents increased opportunities for businesses but also further challenges that they must understand and master.

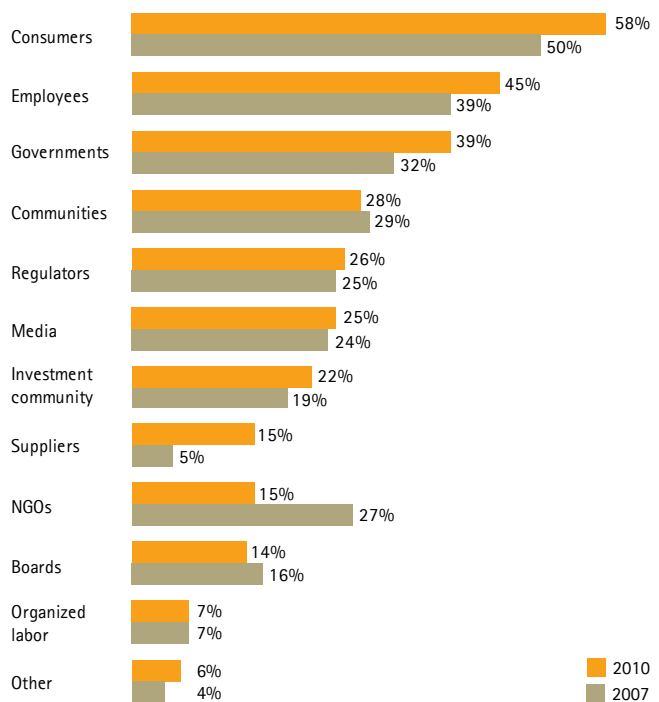
1. Developing new products and services: The consumer is (or will be) king

Consumers are important drivers of the corporate sustainability agenda. Fifty-eight percent of the CEOs in our survey identify the consumer as one of the most important stakeholders influencing how companies will manage societal expectations over the next five years, compared to 50 percent in 2007 (see Figure 1-6). Of those who responded in the "other" category, the option of "customers" was by far the most common choice, reflecting the importance of business-to-business customers and governments as well as consumers. As one business leader from a consumer-goods multinational explained, "There is a growing sense that people expect more than just a high-quality product at a good price." As consumer awareness of sustainability issues increases, companies are being held to a higher standard, and being asked to demonstrate the wider impact of their operations. As Sung-joo Kim, Chairperson and CEO of South Korean fashion and luxury goods retailer Sungjoo Group, said, drawing on her knowledge of consumers in both emerging and developed economies, "Sustainability started as a moral obligation, but has now become a key differentiator for consumers."

Figure 1-6: Consumers are increasingly driving businesses' approach to sustainability

Over the next five years, which stakeholder groups do you believe will have the greatest impact on the way you manage societal expectations?

Respondents identifying each factor in their top three choices



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses). 2007 data from McKinsey UN Global Compact survey.

Growth in consumer demand for sustainable brands, products and services is spurring innovation in new-product development to meet changing consumer requirements. As the CEO of a major European electronics company told us, "Our angle on sustainability is in what our products can do for our customers to reduce their environmental impact." Indeed, many businesses are beginning to see significant new sources of growth in "green" products and services: As growth slows in traditional markets, CEOs are turning their attention toward new propositions that tap into new waves of demand. As one business leader from the consumer electronics industry told us, "We have clearly identified the mega-trends that will shape the next decade, and we want to make sure our customers can address these issues." Another leading executive from the telecommunications sector told us, "We've been shifting our product mix towards products and services that allow our customers to address sustainability outcomes."

CEOs can already point to success stories. For example, due to the increase in demand for energy-efficient products and services, Royal Philips Electronics has been growing its portfolio of green products with specific targets through a comprehensive companywide initiative called EcoVision. The company is adapting its current products and services to be more environmentally friendly, while introducing new green product lines to address growing demand. In 2006, Philips set a target to generate 30 percent of total revenue from green products by 2012, compared with 15 percent in 2006. It has already surpassed this target, hitting 31 percent

in 2009 with revenues of nearly €7.2 billion (US\$8.7 billion), and expects this to rise to 50 percent by 2015. Philips also plans to double its investment in green innovation to a cumulative €1 billion (US\$1.2 billion) by 2012, and aims by 2015 to improve the energy efficiency of its entire product portfolio by 50 percent compared to 2009.¹⁶

However, as opportunities for new products emerge, so do new challenges. For many consumers, sustainability is no longer just "nice to have" but is instead a critical differentiator. That means companies face the risk of falling demand if products and services are perceived as damaging to sustainability objectives. CEOs also recognize that soon they may no longer be able to charge a premium for sustainable products and services. One recent Accenture research study, based on surveys of more than 9,000 consumers in the energy sector, highlighted that although the vast majority of consumers would be prepared to switch energy providers if they offered products and services that helped to reduce carbon emissions, most would also demand savings on their bills.¹⁷ As one consumer goods executive told us, "Consumers are never going to accept a higher price or lower quality."

2. Employing new technologies: Challenge and opportunity abound

New technologies will play a vital role in embedding and enabling sustainability. Ninety-one percent of CEOs believe that over the next five years, employing new technologies (e.g., renewable energy; energy efficiency; and information and communication technologies) will form part of their strategy to address sustainability issues.

The growth in information and communication technologies continues to provide opportunities for businesses to drive efficiencies through reduced energy consumption. According to some estimates, information and communication technologies (ICT) could deliver up to a 15 percent reduction of carbon emissions by business in 2020, representing a value of US\$872.3 billion in energy and fuel saved.¹⁸

Perhaps one of the most challenging aspects of the development of new technologies relates to the impact of networking technologies and social media on businesses' relationship with consumers and wider stakeholders. First, there has been a proliferation of channels by which businesses are expected to communicate. As one emerging market CEO told us, "As we move to the era of Web 2.0, where many stakeholders voice their concerns and unite, we need to engage with them." No longer is a one-way "projection" of a corporate brand sufficient. Businesses are now expected to interact, personally and directly, with the public across multiple social media platforms. As Tensie Whelan, Executive Director of the Rainforest Alliance, told us: "Social media is exciting. It enables a more nuanced conversation about sustainability—it's hard to boil the message down to a sound bite."

Second, the speed and ease of information sharing by consumers across social networking platforms has raised the transparency of business operations. More than ever, businesses see the urgency of truly "living the brand," extending their brand values throughout their operations. Paul Bulcke, CEO of Nestlé S.A., told us, "Consumers are asking who is behind the brand, so we have to make it visible." Nestlé is tackling this issue head-on by using social media channels to inform and engage its stakeholders on environmental and social activities—for example through broadcasting their "Creating Shared Value" forums via Facebook, enabling followers to actively participate by expressing their views and asking questions to panelists.

Many other leading companies are also responding to the social media phenomenon. BT Group is seeking to use Twitter and other social networking platforms to engage directly with consumers. This is enabling a two-way communication that can keep consumers informed about product and service developments, while also generating real-time feedback on how BT can best meet its customers' changing needs.

For businesses, social media increases the opportunity to strengthen the relationship with the consumer to drive revenues. However, it also opens businesses up to increased scrutiny that requires a deeper approach to brand management and provides more comprehensive data and information on corporate performance. For many, this dynamic will represent a fundamental shift away from viewing brand as purely a logo or a slogan to a more detailed and critical appreciation of the values a company stands for—and how those values are integrated into core business operations.

3. Partnering and collaborating: Managing complexity through broader networks

The CEOs we spoke with consistently referred to the importance of partnerships with NGOs and governments in how they address sustainability challenges.

CEOs believe that the societal problems facing the planet are too big and complex for any sector or organization to go it alone. Higher public deficits and reduced public spending over the next decade (particularly in developed economies) mean that governments will increasingly look to businesses and the nonprofit sector to work together to deliver economic, environmental and societal objectives. Within that context, key stakeholders are shaping how businesses will respond and succeed. As Mavi S. Isibor, CEO of Poise Nigeria, told us, "Our enablers are our stakeholders. They ensure our survivability and sustainability."

The changing role of NGOs: From agenda-setter to delivery partner?

Nevertheless, despite this focus on collaboration, one of the most surprising findings from the CEO survey data is that, in the eyes of executives, NGOs may have fallen in significance as a stakeholder since 2007 in terms of driving business activity on sustainability.

In 2010, just 15 percent of CEOs identified NGOs as one of the key stakeholders influencing their approach to sustainability, compared to 27 percent in 2007. This might suggest that NGOs are no longer setting the agenda in terms of policy and issues or that the degree of pressure they are exerting on business is waning.

However, our conversations with CEOs tell a different story. Indeed, they indicated that, although NGOs may have shifted their tone and strategy over recent years, they remain an important and influential player. Daniel Vasella, M.D., Chairman of pharmaceutical multinational Novartis AG, explained: "Our relationship with NGOs has become much more productive as they have seen more activity and commitment from the industry." Another European business leader told us, "NGOs are no less influential today—but they have become much more sophisticated and subtle in how they rally support. Social media such as blogs are fast, effective ways of raising awareness." Mary Robinson, former President of Ireland and Founder of Realizing Rights, The Ethical Globalization Initiative, confirmed: "NGOs are increasingly committed to direct dialogue and engagement with companies, but they expect transparency and accountability in return," alluding to the new and perhaps more subtle ways in which NGOs now influence businesses. These perspectives may help explain the apparent contradiction between our survey data and the stated belief of CEOs in the importance of NGOs as partners.

Through our discussions, we have seen examples of NGOs broadening their approach from solely lobbying business on high-profile issues to partnering and collaborating with business to achieve specific, local development objectives. As one European consumer goods executive told us, "We see a real willingness by NGOs to work together: They are so disillusioned with governments that a better way of achieving their goals is through the private sector." NGOs and businesses are more frequently seeing the advantages of collaboration to address development issues. As one business leader from the telecommunications industry told us, "Companies and NGOs have the same objectives... it's a question of division of labor and creating the right incentives."

One example of business-NGO cooperation comes from Lipton—consumer product company Unilever's biggest tea brand—which has partnered with the Rainforest Alliance to drive sustainable production throughout the company's supply chain for black tea. Unilever is the biggest buyer of black tea in the world, accounting for about 12 percent of the entire market. The Rainforest Alliance is a pioneer in setting standards and certifying sustainable agriculture methods. Such expertise has prompted Unilever to engage with the NGO to actively respond to consumer and customer concerns and drive sustainable agriculture through its supply chain. The tea market has been experiencing decreasing prices, with negative consequences for low-income farmers. Consequently, the partnership has benefited both parties. Certified farmers manage their tea crop better, reducing farming intensity as well as giving them higher returns—certified tea has a 10 to 15 percent price premium compared to average tea prices, which

Lipton passes directly onto its suppliers. Lipton estimates that farmers globally will receive substantially higher additional revenues by 2015. For Lipton, the partnership has helped increase sales in highly competitive markets such as the United Kingdom, where sales increased by 5.6 percent in 2008 following an advertising campaign announcing the partnership. In key growth markets, double-digit returns were seen in 2008, with sales increasing by 10 percent in Italy and 12 percent in Australia.¹⁹

Engaging with regulators

Particularly in the wake of the economic downturn, CEOs face an intensified need to communicate with public authorities and position themselves as part of the solution to the issues with which governments are grappling. As one European CEO in the banking sector told us: "The crisis has put public policy issues and the industry's relationship with authorities on the frontline. This was not the case three years ago...then the issues were growth and expansion."

For many industries, though, collaboration with regulators has been common practice for some time. For example, in recent years the alcohol industry has been proactive in building relationships and partnering with governments to reduce the negative social impacts associated with excessive alcohol consumption. The industry has developed tailored programs with the International Centre for Alcohol Policies that promote responsible drinking and help prevent alcohol abuse in many markets. In the United Kingdom, for example, Heineken, Diageo plc and 45 other companies have partnered with Drinkaware to launch a £100 million (US\$144.8 million) marketing campaign aimed at curbing binge drinking and promoting the benefits of "responsible enjoyment."²⁰

From periphery to core

The widespread perception of the increased importance of sustainability may reflect a new appreciation of the scale and complexity of global challenges facing business today. As issues of climate change and the natural environment, social development and global corporate governance become ever more pressing, CEOs are acutely conscious of the challenges ahead. These challenges have a direct impact on companies' operations, but also demonstrate the role business must play in addressing the demands of the new century. As one emerging market CEO told us, "Sustainable development will be a basic guarantee for our company's survival and growth." It appears that action on sustainability issues has shifted from being a discretionary choice to a corporate priority.



CEOs on sustainability

"I strongly believe that our success depends on our capability to provide long-lasting benefits to the communities which host us."

Paolo Scaroni, Eni S.p.A.

"The financial community is increasingly looking at companies and rewarding those that think smartly about their use of resources."

Paul Polman, Unilever

"Whichever angle you come from, you try to meet a need of a community or an economy, both from an economic perspective and from a development angle."

Gerard J. Kleisterlee, Royal Philips Electronics

"The role of the UN Global Compact as a peer learning and dialogue platform is highly appreciated by our company: it has an outstanding outreach and impact."

Jürgen Hambrecht, BASF SE

"We need more from business than just profit."

Ben Verwaayen, Alcatel-Lucent

"Prescriptive regulation without effective collaboration could result in unintended consequences."

Paul S. Walsh, Diageo plc

"To be a successful and sustainable business, we must fulfil our social responsibilities and build trust with our stakeholders."

Andrew Witty, GlaxoSmithKline

"Training and developing a new generation of managers will be crucial in creating sustainable growth."

Ernst Bärtschi, Sika Group

"The concept of sustainability as a new mode of corporate development will remain unchanged but its methods and means will be constantly upgraded."

Zhongshu Zhou,
China Minmetals Corporation

"We need partnerships, both public-private and also between developed and emerging economies."

PM Telang, Tata Motors

"Sustainability now has to be on everyone's agenda, and that represents a fundamental change."

Klaus Kleinfeld, Alcoa

"Sustainability issues are critically important for our company's future."

Hirokazu Hashimoto, Anritsu Corporation

"The industry always tends to overestimate the short-term impacts and underestimate the long-term impact of new technologies."

René Obermann,
Deutsche Telekom AG

"During the first ten years we've been discussing direction. Now is the time to implement that direction into business and societal mechanisms."

Toshio Arima, Fuji Xerox Co., Ltd.

"Sustainability started as a moral obligation, but has now become a key differentiator for consumers."

Sung-joo Kim, Sungjoo Group

"You cannot be a spike of prosperity in a sea of poverty."

Jamshed J. Irani, Tata Steel

"Technology is the savior for sustainability issues."

Amr Sheira, CompuMe

"The only long-term sustainable way of development is in harmony with the environment and a high level of social responsibility."

Helmy Abouleish, SEKEM Group

"It is important to identify material issues which will contribute to long-term success."

Tae-won Chey, SK

"Investment funds are starting to ask the right questions."

Barbara Krumsiek, Calvert Group Ltd.

"The risk of inaction is the greatest risk facing business."

Idar Kreutzer, Storebrand ASA

"Some countries have already driven high levels of consumption through a banquet of their resources. We have to find a balance that preserves resources as well as economic development."

Jorge Samek,
Itaipu Binacional

"There should be a focus on integrated reporting of CSR and financial results, which could bring about an alignment of sustainability with economic performance."

Fulvio Conti, Enel S.p.A.

"It's now not whether you're going to do anything on sustainability, it's about how much you're going to do."

Rashid Toefy, Cape Town International Convention Centre

"The Global Compact should encourage better collaboration among the growing membership, such that smaller companies can learn from larger companies and adopt best practice strategies."

Martha Tilaar, Martha Tilaar Group

"Future capabilities will be very different, and will put a premium on lateral thinking and cross-functional, collaborative problem solving."

Jeffrey Swartz,
The Timberland Company

"A transition phase will be required in order to reach a tipping point where business objectives are aligned with sustainable development."

Svein Richard Brandtzæg,
Norsk Hydro ASA

"Sustainability is essential to building our brand and our trust with consumers."

Didier Lombard, France Telecom

"Regulators' involvement will be absolutely necessary to drive optimal markets for sustainability outcomes."

Adam Crozier, Royal Mail

"We believe that providing frequent opportunities for many determined companies to engage in mutual communications will result in increased practice, and the wider spread of the UNGC."

Yasuchika Hasegawa,
Takeda Pharmaceutical Company

"Our enablers are our stakeholders. They ensure our survivability and sustainability."

Mavi S. Isibor, Poise Nigeria Limited

"CEOs may complain that investors do not value their sustainability activities properly, but they need to tell investors what they are doing: If they don't communicate regularly, investors cannot incorporate these issues into their models."

Edemir Pinto, BM&FBOVESPA

"Successful business is what drives sustainable growth."

Gareth Penny, De Beers

"We do not just operate today without any thought for tomorrow."

Sam I. Oluabunwa, Neimeth International Pharmaceuticals Plc.

"A transparent approach clearly oriented towards values, human rights and environmental objectives is the only right approach that will be appreciated in the long-term."

Wolfgang J. Rutenstorfer,
OMV Aktiengesellschaft

"Sustainability is a business model that respects that nothing is free."

YS Chi, Reed Elsevier Group plc

"Our relationship with NGOs is much more productive as they have seen more activity and commitment from the industry."

Daniel Vasella, M.D., Novartis AG

"We want regulation to be stable and predictable."

Ignacio Galán, Iberdrola

"Environmental, social and governance issues are crucial to our employee value proposition."

Luiz Ernesto Gemignani, Promon S.A.

"The CEO has to be the role model."

Prida Tiasuwan, Pranda Jewelry PCL

"By promoting and embedding the principles of the Global Compact, business can help ensure that markets advance in ways that contribute to a more sustainable and inclusive global economy."

H.E. Akbar Al Baker,
Qatar Airways

"A theme that will become increasingly apparent in the coming years is the role that emerging countries will play in shaping sustainability."

Carlos Ghosn,
Renault Nissan Alliance

"We believe that it is not only a company's economic performance that determines its success, but rather successfully combining economic performance with active management of how the business impacts on social and environmental factors."

Hans Vestberg, LM Ericsson

"Consumers are asking who is behind the brand, so we have to make it visible."

Paul Bulcke, Nestlé S.A.

"The Global Compact gives us an anchor: over the last ten years, it's had the same principles, and it gives us a means of benchmarking our performance and acts as a mirror for us to see how we perform."

Steve Lennon, Eskom Holdings Ltd.

"To make the transition to a new era, we need a lot of trust in the system—and we're not in that place right now."

Steve Holliday, National Grid

"The Global Compact has a unique opportunity to act as a platform for sharing knowledge and best practice on sustainability."

Alessandro Profumo,
UniCredit S.p.A.

"We have lost trust and we need to regain it with a culture of responsible behavior."

Kaspar Villiger, UBS AG

"This crisis has been the perfect storm for the industry."

Alfredo Sáenz, Grupo Santander



Chapter 2

Making progress: From strategy to execution

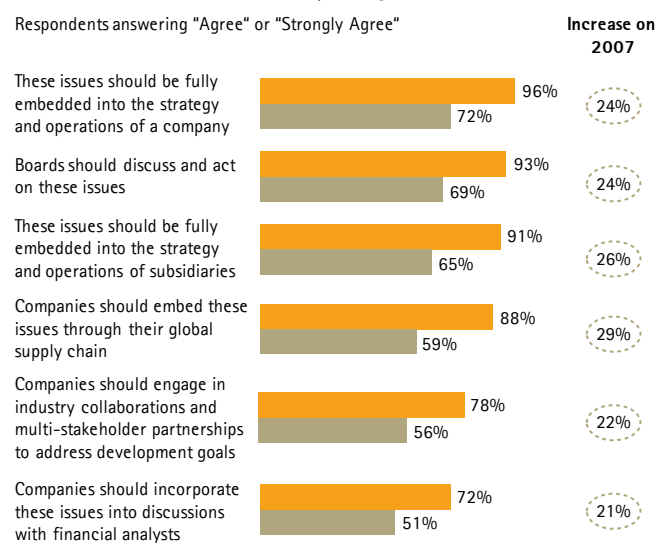
The majority of Global Compact CEOs now believe that sustainability issues should be fully integrated into core business

Our survey found resounding belief by CEOs in a new era of business where sustainability is more than an aspiration or a separate initiative, but something fully integrated into the strategy and operations of a company. In the words of one emerging-market CEO from the banking sector we spoke to, "Currently, the burning issue is how to better incorporate sustainability into daily practice." According to Rashid Toefy, CEO of the Cape Town International Convention Centre—one of the UN Global Compact's growing number of small- and medium-sized member companies—"It's now not whether you're going to do anything on sustainability, it's about how much you're going to do."

The past three years represent a significant mindset shift in how UN Global Compact CEOs think about the role of sustainability in strategy and operations. Ninety-six percent of CEOs, compared to just 72 percent in 2007, now believe that environmental, social and governance issues should be fully integrated into the strategy and operations of a company (see Figure 2-1).

Figure 2-1: A significant shift in mindset has occurred among CEOs since 2007, with the vast majority now believing that sustainability issues should be embedded in core business

To what extent do you agree with each of the following statements about environmental, social and corporate governance issues?



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses). 2007 data from McKinsey UN Global Compact survey.

Both the strategic and operational dimensions of that commitment can be seen in the other answers shown in Figure 2-1. That is, integration with strategy is indicated by the fact that 93 percent of CEOs believe that sustainability issues should be routinely discussed and acted upon by their boards. Integration with operations can be seen in that large percentages of CEOs also believe that sustainability should be extended through their subsidiaries (91 percent) and supply chain (88 percent). According to one European telecommunications executive, "The idea that sustainability issues are peripheral to business has disappeared."

Even allowing for the fact that UNGC member companies are not wholly representative of industry (given their avowed commitment to uphold and embed the principles of sustainable business), their overwhelming response on the need to integrate or embed sustainability throughout the business is indicative of a broader shift in the business community. Corporations are beginning to take the long view of these issues rather than seeing them as short-term, discrete projects.

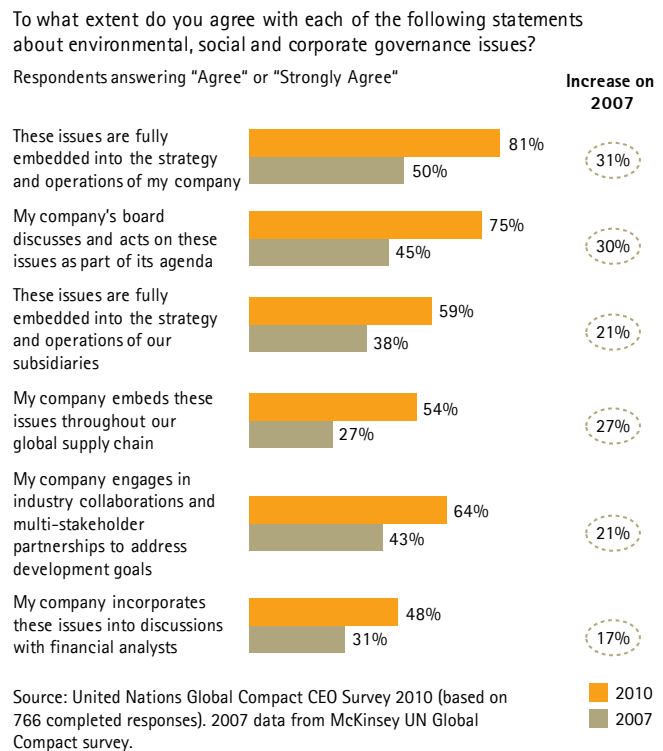
From talk to action: Progress is being made in embedding sustainability

CEOs are also confident about the progress they have made toward this new era of sustainability. Fully 81 percent of CEOs—compared to just 50 percent in 2007—believe that sustainability issues are fully embedded into the strategy and operations of their company (see Figure 2-2). Moreover, these issues are also more consistently being raised to board level—75 percent of CEOs report that their board takes an active role in considering and acting on sustainability issues, compared with only 45 percent in 2007.

We found several concrete examples of this board participation. For example, Deutsche Telekom has moved sustainability from its HR department to the office of the CEO, reporting directly to the board. Dow Chemical has a Chief Sustainability Officer, Dave Kepler, who is also the company's Chief Information Officer, head of Shared Services, and is part of the top executive team. Barbara Kux from Siemens is the Chief Sustainability Officer, who also heads up the company's supply chain management organization, and is a member of the Managing Board. Our conversations suggest that these kinds of structural changes are representative of a broader shift toward ensuring that responsibility and accountability for sustainability sits at the heart of the business and of its decision-making processes.

The issue that shows the smallest amount of progress since 2007 (17 percent) is the proportion of CEOs confirming that their company incorporates sustainability issues into discussions with financial analysts. As seen later in this chapter, many CEOs view the relationship with the investor community as one of the most significant areas where progress is needed.

Figure 2-2: The majority of CEOs report that sustainability has been fully embedded into the strategy and operations of their company



Positive implications of an integrated approach to sustainability

Increasingly, the integration of sustainability issues into business strategy and operations is being witnessed in the development of new products and services. For example, at outdoor products manufacturer The Timberland Company, environmental concerns are being embedded within its core product design process, allowing the company to tap into new sources of demand for sustainable products. As 96 percent of Timberland's carbon footprint lies in its supply chain, the materials used in products have a critical impact on the company's environmental performance. Previously, designers were required to complete a separate "environmental scorecard" for their new products at each prototype stage. Such a process created additional administrative work for designers, and divorced environmental considerations from the mainstream design process.

Today, environmental metrics have been integrated into the main design platform, providing real-time information to designers as they select materials: The software produces a total measure of the environmental impact of the designs and gives it a score on Timberland's "Green Index." In this way, Timberland has encouraged its designers to consider the whole-life impact of the materials they select; the company has thoroughly embedded these concerns in designers' day-to-day operations; and they are able to engage consumers on the basis of enhanced environmental performance. For example, 50 percent of consumers who saw the "nutrition" label carried by Timberland products, which provides information on the environmental and community impact of all their shoes, indicated that it had "positively influenced their purchase."²¹

Similarly, the CEO of a major electronics company explained how environmental considerations are now a routine part of the new product development process: "We want every new product to have a better environmental performance than its predecessors...It's now one of the core elements that goes into the specifications for a new product." Specialty chemicals manufacturer Sika Group is also integrating sustainability into the design process for all products to improve resource and energy efficiency. Some of its new portfolio products include solar roofing, adhesives for solar panels and new "admixtures" that reduce the water consumption for concrete production by as much as 40 percent.²²

Making sustainability real: Meeting the execution challenge

Despite significant progress, however, daunting challenges remain. CEOs recognize that the scale and complexity of global challenges will require a significant acceleration in their efforts—both individually and in collaboration—to embed sustainability at the heart of business. As one business leader put it, capturing the prevailing opinion of many of the CEOs we spoke to: "If we fail to reach a global consensus on what it will take to foster sustainability, progress could be reversed."

From our conversations with CEOs, we see an overwhelming belief that the challenges of social development, climate change and resource depletion cannot be addressed through business-as-usual approaches. As the scale of the issues facing businesses threatens to overwhelm the response of even the most advanced companies, a significant mindset shift will be required in every aspect of business. As one European CEO told us, "The way we do business has to change: technological change, cultural change, more efficiency—all of that comes together."

CEOs believe that the key imperative for businesses, then, is to move from strategy to execution, ensuring that environmental, social and governance issues are fully embedded across an organization's capabilities, systems and processes.

However, although 96 percent of CEOs recognize the importance of sustainability and believe that these issues should be fully embedded within the operations of their company, they see a significant challenge in executing a sustainability strategy. Our survey also shows a significant performance gap between what CEOs believe companies should be doing, and what they report on their own company's performance. While considerable progress has been made since 2007, the shift in mindset toward widespread recognition of the sustainability imperative has raised the execution bar.

Challenges that CEOs face in implementing sustainability initiatives are both internal and external.

Internal challenges

CEOs face a number of internal challenges to executing a strategy that embeds sustainability across the business. Foremost among these are the need to balance multiple programs and objectives, and to push sustainability principles across their broader footprint of supply chains and subsidiaries.

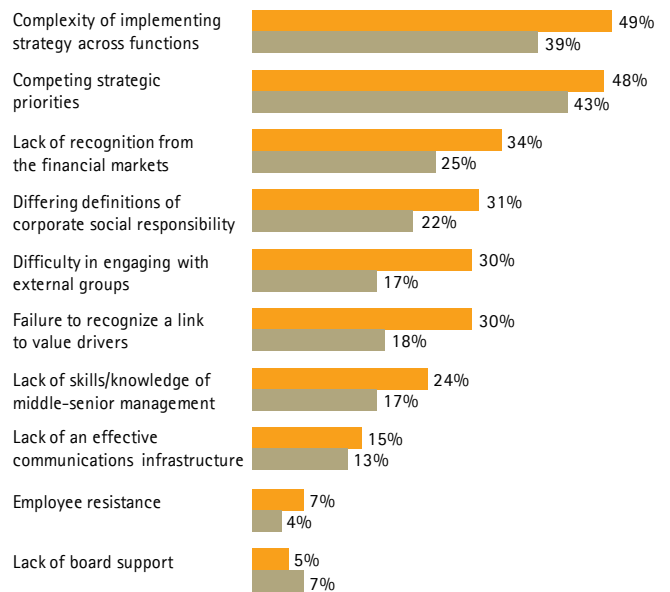
Managing complexity

CEOs report that the most significant barrier to an integrated, companywide approach to sustainability is the complexity that accompanies implementation across different functions, up from number two in 2007 (see Figure 2-3). Rising concerns about complexity demonstrate how CEOs are shifting their sustainability focus from strategy-setting to execution. Of particular issue for many of the CEOs we spoke to was the challenge of ensuring a consistent, companywide approach across large and increasingly complex supply chains as well as subsidiaries.

Figure 2-3: CEOs report that the complexity of implementation and competing strategic priorities are the key barriers to embedding sustainability issues

Which barriers keep you, as a CEO, from implementing an integrated and strategic companywide approach to environmental, social and corporate governance issues?

Respondents identifying each factor in their top three choices



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses). 2007 data from McKinsey UN Global Compact survey.

Competing strategic priorities

The majority of the CEOs we spoke with highlighted the challenges of reconciling the need to take a long-term perspective on sustainability issues with a turbulent market environment that often forces them to make decisions based on near-term pressures. As one business leader in the energy sector put it, "It's a challenge when an organization has its back to the wall, when it's fighting fires, to continually remind yourself that you're in a long-term business."

Reflecting this need to balance often conflicting demands, 48 percent of CEOs report that competing strategic priorities are currently a significant barrier to implementation of sustainability issues. Although the downturn has in many instances accelerated integration of sustainability issues, it has also provided a further set of pressures for CEOs to manage. As one North American CEO told us, "It is difficult for some firms when they're focused on being able to turn the lights on every morning."

So although there is widespread belief in the strategic importance of sustainability issues among CEOs, nevertheless executives are still struggling to approach them as part and parcel of core business. "It is not surprising that CEOs highlight competing strategic priorities as a major barrier," said one European business leader. "It shows that sustainability is not yet embedded across all of their priorities." This observation bears witness to the fact that for many businesses, even among the more progressive members of the Global Compact, sustainability is still regarded as a separate or discrete strategy in itself, rather than being embedded across all corporate and functional strategies and business plans.

Supply chains

As Figure 2-4 shows, the most significant performance gap (34 percent) lies in the integration of sustainability issues into supply chains. Although 88 percent of CEOs believe that they should be integrating sustainability through their supply chain, just 54 percent believe that this is being achieved within their own company. While technological developments such as RFID and remote sensors allow greater transparency in supply-chain management, and therefore promise to have a positive impact on sustainability issues, challenges clearly remain. Most CEOs said they were paying greater attention to the activities of their suppliers; however, an equal number of respondents expressed concerns about whether they can effectively manage sustainability issues throughout such large, complex supplier networks.

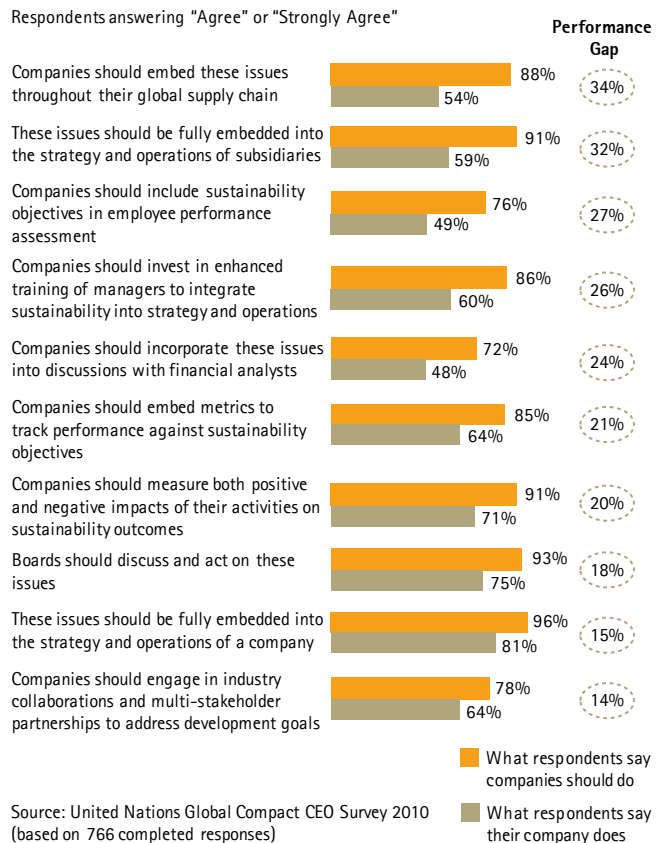
Some CEOs were more positive about the role that they could play in changing their suppliers' behavior. As one emerging-market CEO in the consumer goods sector told us, "We ask all our suppliers to join the Global Compact and adopt the principles...if they don't meet our standards we ask them to change their behavior." Another business leader from the pharmaceutical sector said, "We put pressure on our partners and tell them that we're not going to do business with them unless they can demonstrate their commitment to corporate social responsibility."

For example, Nestlé S.A. is working with The Forest Trust (TFT) to ensure the sustainable sourcing of palm oil throughout their supply chain. Following a social media campaign launched by Greenpeace, Nestlé has taken a further step in their commitment to fight deforestation by partnering with the NGO, which specializes in sustainable forestry, to promote the use of certified palm oil. While Nestlé has been responsible for setting the standard, and sending a clear message to suppliers and stakeholders through the development of their Responsible Sourcing Guidelines, TFT will be responsible for visiting palm oil plantations and ensuring that every producer in Nestlé's

supply chain meets the new requirements. Nestlé has established the goal that by 2015, 100 percent of the palm oil it uses will come from sustainable sources: this figure is already at 18 percent, and is expected to reach 50 percent by the end of 2011.²³

Figure 2-4: CEOs report significant performance gaps in executing a sustainability strategy

To what extent do you agree with each of the following statements about environmental, social and corporate governance issues?



By and large, the voluntary introduction of industry standards seems to be the most common model of enforcing suppliers' commitment to sustainable practices. As businesses globalize and supply chains grow, however, it remains to be seen whether such arrangements will be able to cope with the increased levels of complexity and diversity.

Subsidiaries

The second most significant performance gap (32 percent) appears in the integration of sustainability issues into the strategy and operations of subsidiaries. While there is widespread acceptance of the need to embed these issues into subsidiaries (91 percent), just 59 percent of CEOs believe that they currently meet this ambition.

The difficulty of encouraging more uniform, sustainable processes among subsidiaries speaks to the reality of how such entities come to be a part of a company—often through a merger or acquisition. Here, challenges related to post-merger integration are well known across most industries—challenges such as creating a common culture between previously separate entities and reengineering core processes and approaches. Some of the CEOs we spoke to are already factoring sustainability performance into their mergers and acquisitions strategy, often in the interests of risk avoidance.

However, enforcing common approaches to sustainability from the top down following a merger is not the only approach. Grupo Santander's acquisition of Banco Real demonstrates how leadership in sustainability can also occur "bottom up"—that is, driven by the subsidiary rather than the parent company. In 2007, Santander gained control of ABN Amro's Brazilian unit, Banco Real, widely recognized as a leading company in sustainability. Santander learned from Banco Real's approach and policies and integrated them into the wider group, for example, through the application of a no-lending policy to logging companies in the Amazon that do not have a sustainable forestry certificate. This way, the bank enriched its approach, replicating local practice on a global scale.

People and performance

Performance gaps are also apparent with regard to the capabilities and assessment of employees. Eighty-six percent of CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 60 percent report that their company already does so. As one CEO in the chemicals industry told us, "Management on all levels needs to acknowledge that awareness of sustainability helps executives to better understand societal needs and concerns, to minimize risks and to generate business opportunities."

The transition from employees' acknowledgement of the importance of sustainability to the point at which such issues are incorporated in their day-to-day work will be a further challenge. Such a shift may be supported by the incorporation of sustainability objectives into employee performance assessments. Here, too, our survey data shows a gap between ambition and reality: Although 76 percent of CEOs believe that such metrics should be included, just 49 percent report that they are currently taken into account at their own company.

Building the capabilities of employees and embedding sustainability metrics in performance assessment will be critical steps in the journey toward integrated sustainability—but will require concerted efforts to meet CEOs' levels of ambition.

External challenges

As well as overcoming the internal challenges of integration, CEOs also believe that there are a number of barriers in the external environment that are preventing them from adopting a more embedded approach. The most prominent of these, based on our discussions, relate to the role of business stakeholders: in particular, consumers, investors and regulators.

Understanding consumer and customer demand

Recognizing the importance of the consumer (a topic explored in Chapter 1)—and reflecting the transition from seeing sustainability as an opportunity for cost reduction and risk management to revenue growth—the majority of CEOs consider consumers, business and government customers to be key drivers of change. However, a critical question on the minds of CEOs today is whether sustainability issues and interests are actually driving

predictable consumer and customer behaviors and desires. Our research finds mixed responses about this question.

Many CEOs we spoke with expressed skepticism and uncertainty about the extent to which social and environmental concerns influence buying habits, particularly among consumers. Some of the CEOs were unsure whether the perceived values of Generation Y would last (an age group often most vocally concerned with environmental issues)—or whether they would come to be seen as a passing trend. As one consumer goods multinational CEO told us, "Consumer engagement may be soft: the apparent engagement with environmental and sustainability issues may be explained by Generation Y's longer period of 'carefree living.' But their values may not follow through into middle age."

CEOs also know that they need to be concerned about the impact of some sustainability technologies on consumer privacy. For example, one CEO in the energy sector referred to the "risk of a consumer backlash" over privacy and security concerns of smart metering technologies, which collect specific data on domestic energy usage.

Across the board, CEOs seemed to agree with another business leader from the consumer goods sector we spoke to, who put it this way: "The holy grail is to be able to say that the impact on purchasing behavior of consumers for sustainable brands is clear. It is not."

For some businesses, this uncertainty could spark a negative reinforcing loop whereby skepticism about the extent to which sustainability influences consumer behaviors leads to companies not attempting to stimulate demand. On the other hand, many executives are starting to see a positively reinforcing loop, whereby genuine growth in demand for products and services that address sustainability outcomes is being strengthened by proactive marketing, branding and innovation.

So, although consumer demand for sustainable products and services represents a significant opportunity for business, the path toward embedded sustainability is beset by challenges around understanding consumer attitudes and tastes.

Furthermore, business and government customer demand also represents a challenge as well as an opportunity to drive new growth. Some of the CEOs we spoke to see their businesses as "sustainability service providers", helping other businesses achieve their sustainability objectives through, for example, increased use of technology to reduce travel. Many CEOs we spoke to also referred to the need to engage better with governments to benefit from the US\$521 billion of global stimulus package funding that is focused on sustainable themes (e.g., energy, water and waste reduction).²⁴ Beyond the consumer, then, businesses need to consider how best they can align themselves with changing organizational needs.

Engaging the investor community

It appears that mainstream investors are at present a predominantly absent, if critical, part of the sustainability picture. In our conversations with CEOs, a common refrain related to the lack of interest in sustainability activities from

investors and analysts, beyond very occasional requests from the socially responsible investment community. As one business leader put it, "Investors talk a good game about investing in sustainable business, but that potential has yet to be realized."

Perhaps reflecting this attitude, only 22 percent of CEOs identify the investor community as one of their most influential stakeholders over the next five years. As one European business leader told us, "The real pressure, which isn't there at all, is investor pressure." Most believed that, even if sustainability performance were tracked and measured at a corporate level, the investor community is not interested or prepared to factor these metrics into their valuation models. CEOs also recognized, however, that the power of financial markets, if harnessed, could perhaps be the strongest driver toward companies around the world integrating sustainability into core business.

At the same time, CEOs from the investor community had a slightly different story to tell. Barbara Krumsiek, CEO of Calvert Group Ltd., believed that a time when sustainability issues were built into valuations was not far away and that "investment funds are starting to ask the right questions." This is perhaps borne out by the increasing prevalence of sustainability indexes popularized by financial institutions (and NGOs), which attempt to link sustainability activity to measurable metrics. For example, as Edemir Pinto, CEO of the Brazilian stock exchange BM&FBOVESPA, told us, in 2005 his company launched the Corporate Sustainability Index, which was the first index of its kind in an emerging market. Then, during the 15th Conference of the Parties (COP 15) meeting in 2009, Bovespa announced the launch of its Carbon Efficient Index, which is a new stock index focused on the mitigation of climate change. These schemes join the likes of the Carbon Disclosure Project, the HSBC Global Climate Change Benchmark Index, Goldman Sachs SUSTAIN index and the Dow Jones Sustainability Index. It appears, then, that we are seeing the first signs of a new dialogue between CEOs and investors, but there is still a long way to go before this becomes core to the process by which businesses are valued.

Achieving more regulatory certainty

As Ignacio Galán, Chairman and CEO of Spanish utility Iberdrola, told us: "We want regulation to be stable and predictable." Across the board, we heard a consensus that regulatory uncertainty could prove hugely detrimental to business. "Uncertainty can lead to paralysis," said one financial sector CEO.

Reflecting this apprehension, many CEOs believe that the current uncertainty around carbon regulation, and the introduction of a carbon price in particular, is creating difficulties in planning and valuing investments. One CEO in the electronics sector told us, "The biggest inhibitor is carbon trading...you can't measure it, some people get it for free, you can't create a level playing field, and if you look at the amount of carbon trading that takes place, and the fluctuations in the price, how can anyone make an economic decision based on that market?"

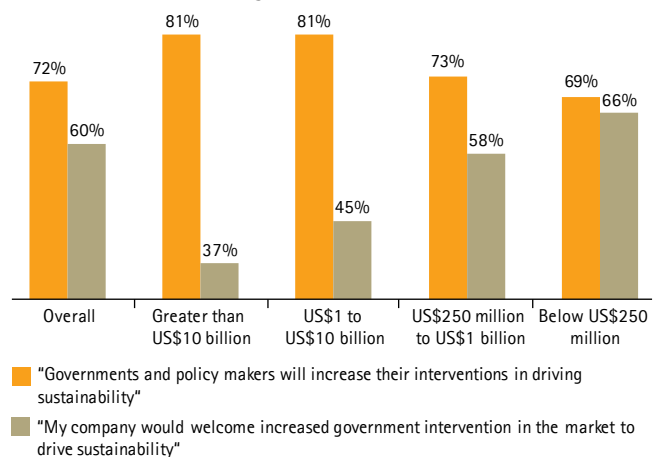
At the same time, given the overall upward trend in energy prices, some CEOs are not letting the uncertainty around carbon affect their plans. An oil and gas CEO told us that, "The lack of clarity in the carbon price doesn't really change our plans: we know that energy costs are going to rise, so we haven't changed our plans because of a lack of certainty."

While many CEOs are worried about future legislation as a response to the failings of the financial crisis, many believe that increased intervention is a necessary feature of the future sustainability landscape, and that CEOs have a responsibility to be actively involved in shaping future regulation. As Adam Crozier, CEO of Royal Mail, told us: "Regulators' involvement will be absolutely necessary to drive optimal markets for sustainability outcomes." Indeed, 60 percent of CEOs say they would welcome increased government intervention to drive sustainability. However, levels of expectation and appetite for legislation vary significantly by company size (see Figure 2-5). CEOs of larger companies (those with revenues of more than US\$10 billion per annum) see future regulation as most likely, but are the least welcoming of it. Conversely, smaller companies are the least expectant of regulation but would welcome it most.

Many CEOs believe, however, that increased intervention without effective business consultation could also produce negative effects. Paul S. Walsh, Chief Executive of consumer products company Diageo plc, spoke of the importance of business operating as a proactive and equal partner in the process of policy making, warning that "prescriptive regulation without effective collaboration could result in unintended consequences." For example, in some emerging and developing economies, government measures to increase taxation on alcohol with the aim of reducing abuse have actually led to an increase in the illegal market for illicit—and highly toxic—alcohol. By broadening the network of stakeholders involved in the process of policy formulation, the chances of these negative effects occurring could be reduced.

Figure 2-5: Expectations of government intervention and the extent to which such action is welcome vary significantly by company size

To what extent do you agree or disagree with each of the following statements about the role of government over the next five years?







Chapter 3

Approaching a new era: The road ahead

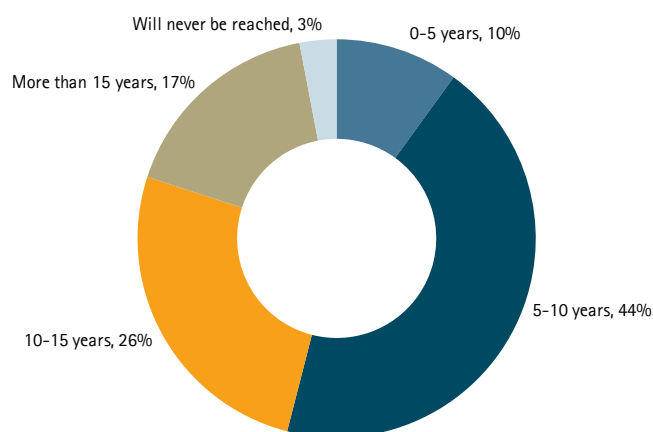
CEOs believe that a new era of integrated sustainability is possible, but challenging

Despite the challenges facing businesses in integrating sustainability, CEOs believe that they are beginning to see the outline of a new era of sustainability coming into view. Fifty-four percent of CEOs envisage a tipping point occurring within the next decade—a point at which sustainability will be embedded in the core business strategies of the majority of companies globally (see Figure 3-1). Eighty percent of CEOs believe this point will occur within the next 15 years.

Although to say that an important shift in the business and societal landscape may be 10 to 15 years away may sound like a long-term proposition, in fact this finding is quite startling in its optimism. Not so long ago, a dominant opinion among executives would have been that embedding sustainability fully into business operations was an impossible goal. Neither the internal business case nor the external drivers would have been conducive to such a view. However, for a sustainable economy to have become a realistic proposition—and one that CEOs can start to see on the horizon—represents a further shift in opinion since 2007 and is a cause for optimism.

Figure 3-1: The majority of CEOs see a tipping point for embedded sustainability occurring within ten years

How long do you think it will take to reach the point where sustainability is embedded within the core business strategies of the majority of companies globally?



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Levels of optimism vary according to both geography and company size. North American CEOs tended to be more optimistic: 62 percent of CEOs from North America believe a tipping point will occur within the next decade, compared with only 43 percent in the Middle East and North Africa. Larger companies also tend to believe a tipping point will occur sooner: 63 percent of CEOs from companies with revenues greater than US\$10 billion believe a tipping point will occur in the next ten years, compared with 51 percent from companies with less than US\$250 million revenues.

Reaching a tipping point will present a very different environment for business

The CEOs we spoke with believe that, if a tipping point is reached such that sustainability is fully integrated into businesses globally, it will present an operating environment profoundly different from today. In that new era, CEOs see significant implications for the concept of value and the terms by which business success will be judged. This will lead to new forms of competition, business models and organizational capabilities, as well as redefining high performance.

Based on their insights and drawing directly from the discussions with CEOs, we can start to piece together a picture of what that business environment might look like. It will be an environment with:

- A broader sense of, and ability to measure, what value creation means to society as a whole, encompassing both positive and negative impacts.
- New kinds of collaboration and partnerships with suppliers and distributors, civil society organizations and governments to drive sustainability outcomes.
- More effective use of technology to drive transparency, resource efficiency and a transition to clean energy infrastructure.
- New models of innovation that use an open approach to harness ideas and expertise from around the world, often at low cost and using collaborative technologies.
- More effective business practices when operating in emerging markets to tackle different consumer and citizen needs and alternative distribution channels.
- Sustainability leadership and culture that embeds sustainability issues into the way executives and employees think about strategy and execution.

A broader focus on business and societal value creation

CEOs believe that the new era of sustainability will bring with it a new way of assessing corporate performance. This will be characterized by a shift away from focusing solely on financial profit and loss to a broader, long-term understanding of value creation that acknowledges that every business action has an impact on society and the environment. As YS Chi, Vice-Chair of publisher Reed Elsevier Group plc, said, "Sustainability is a business model that respects that nothing is free." CEOs see a time when value creation and profit optimization (rather than profit

"maximization") will be business's primary objective. As Ben Verwaayen, CEO of Alcatel-Lucent, told us: "We need more from business than just profit." Or, as another business leader we spoke to envisioned it, "A truly socially responsible company will not only have to serve shareholders and analysts but all stakeholders and society more widely."

So perhaps the defining equation for high performance in a new era of sustainability—building on a concept outlined by PepsiCo CEO Indra Nooyi—might be:²⁵

Full Business Value = (Profit + loss) - (Positive + negative impact on society)

Today, we are already seeing signs of the business models that will be required to meet the needs of this new era of business's broader social responsibility. With a changed orientation toward value creation will come a longer-term perspective ensuring that, in the words of Sam I. Oluabunwa, President and CEO of Neimeth International Pharmaceuticals Plc, "We do not just operate today without any thought for tomorrow." Businesses will increasingly move away from seeing themselves as operating within a discrete part of a value chain toward taking greater responsibility for an entire system of inputs and outputs. Through the principles of eco-design they will seek to incorporate whole life-cycle impact assessment into their design and innovation process. For example, The Timberland Company's new range of "Earthkeepers 2.0" boots are conceived with "cradle-to-cradle" principles in mind, and designed to be disassembled for recycling at the end of their useful life. The new design reduces the carbon impact of a typical production run of 40,000 boots by 500 metric tons—roughly the same amount as the impact of all the energy and heating used in a three-month period at Timberland's New Hampshire headquarters—and also uses 200 percent more recycled or renewable materials. Up to 80 percent of the materials from the boot can now be recycled or reused at the end of the boot's first life.²⁶

Similarly, communications, electronics and high-tech companies are also reassessing the broader impact of their products. Mobile device manufacturer Nokia has been implementing a "Take Back" scheme, incentivizing its customers in 85 countries around the world to return and recycle old phones. Mobile phones contain a number of valuable materials, such as copper, iron and aluminum, and up to 80 percent of each handset can be recovered and reused. Customers are encouraged to dispose of their obsolete devices, batteries and accessories in a safe and environmentally friendly way at designated recycling bins in any of the 5,000 Nokia service points around the world. In China, Nokia has recycled over 55 tons of obsolete materials, equivalent to approximately 550,000 devices. Through collection schemes mandated by the European Union's Waste Electrical and Electronic Equipment Directive, in 2007 Nokia contributed to the management and recycling of 17,000 tons of electronics waste. While Nokia itself does not necessarily receive any of the recycled materials, the strategy is both environmentally responsible and good for business: It helps to increase the company's reputation and brand value, as well as the loyalty and retention of its customers.²⁷

Another compelling story comes from Alcoa which, in a small town on the banks of the Amazon River in Brazil, has built and put into production a bauxite mine conceived and operated in a sustainable manner. Alcoa has invested US\$27.5 million on local infrastructure and earmarked US\$16.6 million for 35 local community support programs, such as promoting local handicrafts and reforestation of degraded areas of land. The Brazilian government and many NGOs see this operation as a role model for future mine development in the area. From the community standpoint, having Alcoa present has enabled the building of a hospital, health centers, a police station, schools, a courthouse and, among other initiatives, a vocational training center for industrial jobs. This example reflects a growing trend within the metals & mining industry, whereby companies are taking greater steps to ensure that local communities are not completely dependent on the company's presence. If the mine eventually closes, the community remains sustainable.

The project has transformed the region for the people who live there and, in doing so, has raised the bar for other businesses in the mining and other industries to demonstrate the same level of engagement. As Paola Scaroni, CEO of Italian utility Eni S.p.A., one of the first operators in Africa, told us: "I strongly believe that our success depends on our capability to provide long-lasting benefits to the communities which host us."

The executives we spoke to felt that many challenges remain to be faced and conquered as businesses transition to playing a more significant role in societal value creation. The meaning of "value", for example, will need to be discussed carefully, especially as meanings vary in ways both large and small from region to region, and from industry to industry. With a broader mandate comes a broader set of stakeholders, and companies will need to manage the expectations and influence of this larger body. All players within an industry will need to be especially cognizant of the health of the largest companies. Mistakes made by companies with disproportionate power have the potential to damage an entire industry. So the synergies and dependencies among even competing companies will need to be more fully understood and managed.

In spite of these challenges, we found a sense of optimism among many of the CEOs about operating in this new world of broader social responsibility. In a number of ways, businesses will be able to couple both business value (e.g., revenue growth, increased efficiency and higher customer retention) and societal value (e.g., improved stakeholder relations with consumers, local communities and governments). In doing so, businesses will be better able to reassert a stronger, more positive and influential role in society.

New kinds of collaboration and partnerships

CEOs believe that businesses will have to become more adept at identifying issues that will drive competitive advantage and are ripe for collaboration, and those that will not. Even when collaboration is deemed appropriate, it may well be between nontraditional business partners. For example,

in Germany, utilities are threatened by reduced demand for energy and decreasing revenues, and with increased regulation on carbon. Energy company RWE therefore looked to diversify revenue sources by entering the market for electric vehicles in Germany. The complex value chain of the motor industry led RWE to enter into a joint project with Daimler to effectively enter the automotive market. Daimler provides the electric cars, while RWE handles the development, installation and operation of charging infrastructure, supply of electricity and central system control. The pilot is already in full operation in Berlin. By partnering in this way, both businesses are able to leverage their respective capabilities but also ensure that there is no compromising of either's competitive position in their respective industries.²⁸

In a variety of ways, CEOs told us that they see their businesses moving from point-to-point relationships to layered webs of interrelationships or networks that will require careful monitoring and management. Each node of these networks will expose businesses to greater scrutiny and transparency, laying bare the inner workings of the organization in a way that is unfamiliar to many executives. This situation will be further complicated by the new channels through which relationships will be conducted, as social media (e.g., online forums, blogs, social networks, Twitter, etc.) begin to dominate modes of communication. One emerging market CEO told us, "As we move to the era of Web 2.0, where many stakeholders voice their concerns and unite, we need to engage with them."

A greater premium on stakeholder relationships will demand new skill sets from employees, and CEOs do not believe they necessarily already have these skills within their existing talent pool. As one CEO said to us, "My marketing director in 10 years time is probably not in our company at the moment and my existing lead will not be here." The ability to negotiate with a diverse set of stakeholders, to manage relationships on a long-term basis and to respond to shifting stakeholder needs and attitudes will be paramount. One business leader told us: "Partnerships will only be a growth area for us." Similarly, PM Telang, Managing Director of Tata Motors, said, "We need partnerships [on sustainability], both public-private and also between developed and emerging economies."

However, partnering on a cross-sector basis will challenge many companies. Nearly one-third of the CEOs in our survey highlighted "difficulty of engaging with external groups" as a barrier to integrating a companywide approach to sustainability. Making these partnerships work will require interchange of personnel to build up experience and skills within partner organizations, an appreciation of the different mindsets and motivations that each stakeholder may have as well as an ability to maintain accountability and track performance across organizational boundaries.

More effective use of technology

The belief in the power of technology to generate new solutions to sustainability challenges was reflected in our conversations with Global Compact CEOs. As Amr Sheira, CEO of information technology retailer CompuMe,

said to us: "Technology is the savior for sustainability issues." However, while there was widespread belief among the survey's CEOs that more effective use of technology is a critical part of bringing about a new era of sustainability, it was less certain whether the full potential of technology is fully understood, or whether it can be harnessed in the right way. In the words of René Obermann, CEO of Deutsche Telekom AG, "The industry always tends to overestimate the short-term impacts and underestimate the long-term impact of new technologies."

In order to show the breadth and depth of technology's impact on sustainability and societal outcomes, Deutsche Telekom is demonstrating how broadband telecommunications can improve the quality of life in cities and drive economic growth. Deutsche Telekom's T-City is the joint future laboratory of Deutsche Telekom and the German city of Friedrichshafen. Until 2012, T-City Friedrichshafen will be a showcase for modern information and communication technologies, demonstrating how it improves the quality of life and community in the city. T-City will receive up to €35 million (US\$42.1 million) worth of infrastructure and the latest fixed-line and high-speed mobile broadband technologies. Additional investments of up to €80 million (US\$96.3 million) have also been planned for future-oriented projects proposed by the city. Since T-City began in 2007, approximately 30 projects have been implemented across six project areas that cover virtually all aspects of city life: learning and research; mobility and transport; tourism and culture; citizens, the city and the state; business and work; and health care.²⁹

In making this investment, Deutsche Telekom is tapping into the growing market for smart technologies (e.g., grids, meters and cities), renewable and efficient energy technologies, and mobility solutions. The global smart-grid market alone generated an estimated US\$17 billion in revenues in 2008. The market is forecast to grow rapidly in 2009—reaching US\$25 billion—and forecasts suggest that the total market will continue to grow at an average annual growth rate of 11 percent, reaching US\$42 billion by 2014.³⁰

New models of innovation

For many leaders across multiple industries, a more open and collaborative business environment is changing the nature of innovation and new-product development. The creation of products and services is more likely to involve multiple players coming together in a more dynamic fashion. One example of this trend is engaging consumers on a kind of coproduction basis that involves them in the product innovation and design process. This kind of cooperation can stimulate demand and support closer alignment of products with consumer needs.

Many of the CEOs we spoke with are starting to tap into open innovation practices as a means of expanding the scope of their thinking and understanding consumer needs more directly. Companies are already accessing expertise from around the world at low cost as a way of generating new ideas for products and services, shifting innovation outside the boundaries of the firm.

Alcatel-Lucent, together with Bell Laboratories and a consortium of leading ICT companies, academic and non-governmental research experts, has formed the "Green Touch" initiative to pioneer innovations in eco-sustainability technology. The initiative is proactively getting more players involved by "opening its doors to individuals and organizations across the industry," embracing open collaboration in an effort to achieve dramatic reductions in the energy consumption of ICT networks. The main goal is to create the technologies needed to make communications networks 1,000 times more energy efficient than they are today. A thousand-fold reduction is broadly equivalent to being able to power the world's communications networks, including the Internet, for three years using the same amount of energy that it currently takes to run them for a single day.³¹

More effective business practices when operating in emerging markets

Emerging markets are vitally important for the growth of many industries. In telecommunications, for example, many analyses predict that more than 1 billion additional consumers will soon come online through mobile telephony, with the vast majority from emerging economies.

The CEOs we surveyed are acutely aware of the importance of this market. Sixty-five percent of CEOs agreed that over the next five years their company would adopt new business models and practices in emerging markets (such as base-of-the-pyramid models that tailor products for large but underdeveloped consumer markets). As consumption levels continue to rise in emerging markets, it will be important, as one energy executive put it, for businesses to "look toward new geographic markets in which to invest."

The business impact that this exposure to new issues and practices will have is likely to be significant. As Carlos Ghosn, Chairman and CEO of the Renault Nissan Alliance, told us: "A theme that will become increasingly apparent in the coming years is the role that emerging countries will play in shaping sustainability."

Operating in these new markets will require a willingness to adapt existing or develop new business models and approaches. For example, the India-based Tata Group has been developing new, simplified products through a process described as "reverse," "frugal" or "constraint-based" innovation. The approach is characterized not just by adaptation of existing products, but also by the fact that it starts with the needs of low-income consumers and works backwards. For example, Tata Consultancy Services has just developed a low-tech water filter. It uses rice husks (which are among India's most common waste products) to purify water. The filter is not only robust and portable but also relatively cheap, giving a large family an abundant supply of bacteria-free water for an initial investment of about US\$24 and a recurring expense of about US\$4 for a new filter every few months. Tata Chemicals, which is making the devices, is planning to produce 1 million filters over the next year and hopes for an eventual market of 100 million. It will

lead to huge health benefits through access to clean water from cheap and affordable filters—in India about 2 million people die from drinking contaminated water every year.³²

Sustainability leadership and culture

The new era of sustainability will require different modes of leadership—characterized by two distinctive sets of behaviors which we call “leading inward” and “leading outward.”

Leading inward

How can the long-term nature of the sustainability agenda be reconciled with the relatively short-term nature of a typical CEO's tenure? The inherent tension here is acknowledged by many of the CEOs with whom we spoke. All acknowledge the importance of the CEO in setting the general direction of the company; as Prida Tiasuwan, CEO of Pranda Jewelry PCL, put it, “The CEO has to be the role model.” It was also striking how many of the non-CEO board executives we interviewed also emphasized the critical importance of leadership from the top. However, to hedge against the loss of momentum of sustainability strategies that could accompany the departure of a CEO or members of top leadership, businesses also need to ensure that responsibility for sustainability is pushed downwards or inwards so that it becomes part of the organizational DNA, and so that succession strategies focus on continuity.

The CEOs we surveyed appear to share this view. Eighty percent of CEOs agreed that ensuring responsibility for sustainability is institutionalized beyond key individuals will define business leadership in the future: Said one North American CEO, “We should educate and enforce that, while the CEO is crucial, the CEO should also embed these issues throughout the company. Poor progress on sustainability is often ascribed to the departure of senior leadership.” So, although leadership is important, CEOs will need to harness all of the company in a more collaborative effort to ensure longevity of sustainability initiatives.

Leading outward

On the other side of the coin, CEOs agree that global challenges require global, cross-sector responses. For CEOs and their boards, this means raising their collective understanding of, and engagement with, different sectors of society, ensuring that board discussions are enriched by a diversity of nonprofit and government viewpoints. Such a response also means that business leaders must adopt a bolder, more proactive position on the global stage—a form of leadership that looks outward, beyond the traditional boundaries of the organization itself, and articulates a vision for the sustainable future of the industry and wider society.

However, our survey showed that CEOs are perhaps not being vocal enough in their support for matters of broader business concern. For example, nearly one-third of CEOs either disagreed with or were ambivalent about the need to demonstrate support for global integration and open markets. Twenty-six percent also saw no need to engage with policy makers beyond industry-specific concerns. Recognizing this shortcoming, Jean Rozwadowski, Secretary-General of the International Chamber of Commerce, said: “Business leaders need to be more vocal in making the case for free trade and open markets.”

Creating a more adaptive culture

A new era of sustainability cannot be attained without the broader support of the corporate culture. Transforming a company's larger culture requires providing new educational opportunities and encouraging new ways of working. For example, exposure to the field of “systems thinking” will help employees understand the interrelations and multiple causalities within a complex adaptive system. As one business leader in the insurance sector told us, “Employees will need to have a deeper understanding of how changes in the macro environment can potentially impact individuals and organizations at the micro level.” Futures analysis and scenario planning may help employees challenge the assumptions on which businesses are founded, helping to make the organization more resilient in the face of change—even disruptive change.

This more organic understanding of corporations also affects how companies connect employees with one another and how they work together to innovate and serve customers. According to Jeffrey Swartz, President and CEO of The Timberland Company, “Future capabilities will be very different and will put a premium on lateral thinking and cross-functional, collaborative problem solving.” The ability to learn and store knowledge and experience, create flexibility in problem solving and balance power among interest groups can help teams improve their “adaptive capacity”—that is, their ability to change more effectively in concert with their external environment.³³

This adaptive capability becomes even more important as companies understand that sustainability itself is a dynamic, not static, destination. In the words of Zhou Zhongshu, President of China Minmetals Corporation, “The concept of sustainability as a new mode of corporate development will remain unchanged but its methods and means will be constantly upgraded.” As companies make their journey to the new era of sustainability, they are likely to find themselves constantly reorienting and adjusting toward a shifting view of the future.



Chapter 4

Accelerating the journey and competing in a new era of sustainability

CEOs can see the final destination

The UN Global Compact–Accenture CEO Study 2010 has uncovered a picture of global business, and global attitudes toward sustainability, much changed since the last survey in 2007. Executives demonstrate a stronger commitment to the importance of sustainability principles to their companies, an awareness of both the societal and business value of more sustainable operations and products, and a strong sense of what the next era of sustainability will look like. It is an era where sustainability is embedded or integrated across the global business footprint, from internal operations to the supply chain and subsidiaries.

Although the vision is shared, the means to get there and the timing of the journey are uncertain. Multiple stakeholders across industries and national boundaries will need to work in concert, and progress is likely to be characterized by fits and starts.

Svein Richard Brandtzæg, President and CEO of aluminum and renewable energy company Norsk Hydro ASA, reflected the views of the majority of CEOs we spoke to when he told us: "A transition phase will be required in order to reach a tipping point where business objectives are aligned with sustainable development."

Putting in place the right conditions

What are the conditions most important to enabling that tipping point to be reached?

We asked the UN Global Compact CEOs this question, and their answers are instructive (see Figure 4-1). The top answer: consumer attitudes. That is, for sustainability to become part of "the way business is done" there must be a market for sustainable products and services, and consumers play the key role in creating that market.

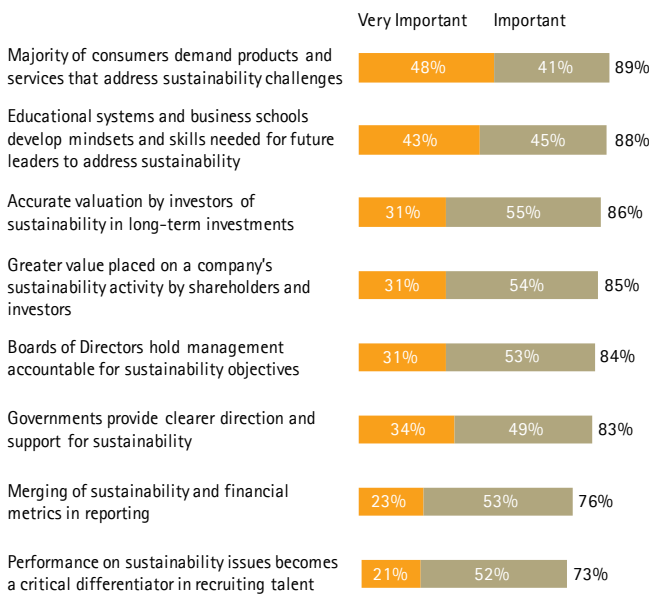
A second factor noted by CEO respondents was the need for a new generation of leadership development. This applies both to academic institutions and the way companies think about their own training programs. Executives can always learn new ways of operating and leading. Yet leaders are influenced by the educational and corporate models that shaped their thinking at school, university and in executive education. For example, when business schools teach sustainable leadership principles as a prerequisite, embedded across the curriculum rather than as stand-alone business ethics or environment modules—and when they focus on sustainability with an emphasis identical to marketing and financial reporting—we will know that a new era of sustainability is at hand.

The role of the analyst and investor community is also critical, according to CEOs. However, it is difficult—and maybe impossible—for companies to make significant progress toward sustainability as an integrated way of doing business if valuations take no accounting of such efforts.

Regulators, too, obviously play a key role—going beyond punitive mindsets focused on environmental infractions and taking a proactive role in bringing together public and private interests toward shared goals.

Figure 4-1: CEOs see that a number of conditions are important to reach a tipping point in sustainability

How important will the following changes be in order to reach a "tipping point" where sustainability is embedded within the core business strategies of the majority of companies globally?



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Five enabling conditions for integrated sustainability

Based on our CEO survey and one-to-one interviews, we have identified five principal enabling conditions or "must-haves" that executives believe need to be put in place to accelerate the transition toward a tipping point whereby sustainability is fully integrated into the majority of businesses globally. Businesses can take a leadership role on all of them, although they will often need to work in collaboration with other stakeholders (e.g., UN Global Compact, NGOs and government agencies).

The five interrelated sets of enabling conditions are:

1. Consumers and customers that consistently demand sustainable products and services, creating favorable market conditions.
2. Educational reforms both in companies and academic institutions that create sustainability skills and mindsets in executives and workforces.

3. Financial reforms and a new level of dialogue between CEOs that enable sustainability activity to be incorporated into valuations by investors and analysts.

4. New concepts and measurement of value and performance that are embedded at both the organizational and individual levels—assessing positive and negative sustainability impacts as well as the impact on business drivers and future value.

5. A regulatory environment that provides clear direction and incentives for embedding sustainability into strategy and operations.

1. Actively shaping consumer attitudes and needs to create a market for sustainable products

Eighty-nine percent of CEOs identify the point at which the majority of consumers demand products and services that address sustainability challenges as important to reaching a tipping point. Within that, 48 percent identify it as very important—the highest response to this question (see Figure 4-1).

Actions businesses can take to shape consumer demand

Many CEOs we spoke with are starting to shape emerging tastes and preferences for sustainable products and services. As one consumer goods executive put it, it is about "making the sustainable choice the easy choice, if not the default choice." There are two principal actions that CEOs identified as important to help them understand the consumer: two-way communication via social media platforms and providing incentives.

Improving communications with consumers

As one North American CEO told us, "Consumer information will change behavior." By highlighting how a particular product impacts environmental or social outcomes, businesses can align better with a consumer's buyer values as well as differentiate themselves from competitors on the basis of comparable performance data.

The innovative use of leading-edge communications channels will be increasingly important to making information both more understandable and more accessible to consumers. For example, Apple's iPhones can now be used to download applications that can scan a barcode of a product—which gives a consumer immediate information about a company's or product's carbon footprint, enabling consumers to make informed decisions on the spot.

Similarly, PepsiCo and Walkers have partnered with the Carbon Trust to help calculate and reduce the carbon footprint of a bag of potato chips. To communicate this to consumers, each bag of chips now has a label showing its carbon footprint, and a companion website that explains the carbon footprint and environmental impact of PepsiCo's and Walkers' operations.

Creating the conditions for a new era of sustainability

Enabling conditions

1. Consumers who consistently demand sustainable products and services, creating favorable market conditions.

2. Educational reforms that create sustainability skills and mindsets in executives and workforces.

3. Financial reforms that enable sustainability activity to be incorporated into valuations by investors.

4. New concepts of value and performance that are embedded at both the organizational and individual levels.

5. A regulatory environment that provides clear direction on sustainability and a cooperative environment for business.

Example business actions based on CEO interviews

- Improve provision of consumer information, leveraging new technologies (e.g., social media) where appropriate
- Provide "hard" and "soft" incentives to change consumer behaviors—e.g., promoting competitive practices or financial incentives
- Develop an innovation agenda that builds sustainability principles from design and throughout the lifecycle of product development
- Invest in enhanced training of managers on sustainability issues
- Shape educational curricula and partner with academic institutions—e.g., through development of vocational courses
- Communicate progress on sustainability issues to employees
- Track impact of sustainability activities on core metrics—e.g., revenue growth
- Communicate progress to investors proactively and on a regular basis
- Devise mechanisms to measure both positive and negative impacts on society
- Embed sustainability issues into the performance and remuneration packages of top executives
- Adopt collaborative approaches to shaping regulation—e.g., joint working groups, co-location of staff
- Develop industry standards that preempt formal regulation—e.g., the Kimberley Process

Businesses will need to cope with the potential downside of the more uncontrolled communications environment of the social media space; such channels can expose businesses to a more intense level of scrutiny and transparency than they are used to. However, if businesses are willing to open themselves up to accountability in this way, the signs are that the opportunity to engage with consumers and stimulate future demand is significant. Governments and NGOs can also play a key role in increasing the provision of independent consumer information—or collaborating with businesses to validate their own information—thus raising awareness and promoting accountability.

Providing incentives

The use of hard and soft incentives can also help shape consumer behavior, and leading companies are already innovating to facilitate these incentives through smart technology. For example, many of the CEOs and business leaders we spoke with from the utilities sector talked of the potential benefits presented by smart meters, which can compare a homeowner's energy consumption with that of neighbors on the same street. This can help reduce energy use through the application of Thaler and Sunstein's theory of "nudge economics" in a practical setting, capitalizing on people's susceptibility to indirect peer pressure ("nudging") and competition.³⁴ Business and regulators can play a leading role here, but there remain a number of ethical questions around the extent to which personal data and information can both be collected and manipulated to change behavior. One of the business leaders we spoke to referred to considerable "mistrust and concern" from consumer groups who were fearful of how instruments such as smart meters that collect and use personal data might violate privacy guidelines and pose potential security threats.

Financial incentives can also be usefully deployed to influence consumer behaviors. Government subsidies that promote the take-up of environmentally friendly products and services are often an effective means of making it easier for consumers to arrive at a purchasing decision that delivers an environmental and social benefit. For example, tax relief on the purchase of bicycles for transport to work can help reduce congestion on streets and highways, while also improving the health of citizens.

2. Generating new knowledge, skills and mindsets to drive sustainable development

Eighty-eight percent of CEOs identify the point at which educational systems and business schools develop mindsets and skills needed for future leaders to address sustainability as important (43 percent as very important) to reaching a tipping point in sustainability (see Figure 4-1). Based on our conversations, CEOs see the importance of education and skills at three levels.

First, at the broadest level, CEOs believe better education systems are needed to support sustainable development outcomes. For example, increasing employment and lifting people out of poverty in a sustainable way depends on providing them with opportunities to acquire a broad education as well as marketable skills. CEOs are aware of the criticality of better education to their companies' business performance and to the attainment of sustainability goals; executives identified "education" as the most important development challenge facing the future success of their business: 72 percent identified it in their top three challenges—ahead of climate change (66 percent) and poverty (51 percent) (see Figure 1-5). That education trumps climate change in this survey speaks not only to the broader conception of sustainability that has been embraced over the last three to five years, but also to a recognition among most of the CEOs we spoke to that education is the most effective route toward sustainable development.

Second, CEOs believe that, to ensure the steady supply of key skills to meet both societal and business needs, action is needed to deliver more graduates in disciplines such as science and engineering. However, simply increasing supply is not enough. Companies must create more compelling conditions and opportunities to attract employees with the required skills. As one CEO in the energy sector told us, "Many science and engineering graduates no longer want to go into business. They are not sure of business's role in society and feel they can make more of an impact elsewhere." Many CEOs are concerned about the damaged reputation of business in the wake of the recent financial crisis and economic downturn; they see a considerable risk that a new generation of talent will seek to apply their skills in professions they believe to be more aligned with their personal and ethical convictions. Understanding this dynamic will be critical to the ability to acquire, develop and retain talent in sufficient numbers to succeed.

Third, CEOs see a critical need for business schools and education systems to focus on developing the next generation of managers and business leaders with the knowledge, skills, attitudes and behaviors to manage sustainability issues as an integral part of the way they think about business.

Actions businesses can take to prepare a new generation of talent with sustainability skills

Although businesses believe that formal educational institutions and business schools need to do more when it comes to sustainable education and the development of more relevant skill sets, they also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.

Upgrading corporate training in sustainability

Eighty-six percent of CEOs believe that companies should invest in enhanced training of managers to integrate sustainability into strategy and operations—but only 60 percent are currently doing so. Ernst Bärtschi, CEO of specialty chemicals company Sika Group, said, "Training and developing a new generation of managers will be crucial in creating sustainable growth: Decline in trust will put the onus on ethics and integrity to rebuild the position of business in society." Many of the companies we spoke to are recognizing this need. For example, Nissan's Leadership Program for Innovative Engineers aims to promote the understanding of global challenges among the engineers of tomorrow, and is seeking to catalyze a new wave of innovation focused on sustainable development.

Other leading companies are also harnessing the power of technology to improve training and development on sustainability issues. Mining giant Rio Tinto has commissioned and rolled out a new e-learning platform to deliver training to its workforce. Designed to be a major element in their approach to sustainability, the ability to design and deliver tailored, modular courses on environmental, social and governance issues is enabling Rio Tinto to move toward an integrated and efficient solution to the urgent priority of up-skilling their global workforce on security and human rights.

However, more broadly, it seemed clear from our discussions with CEOs that often they were faced with a cadre of managers that had yet to embrace sustainability or were, in many cases, not incentivized to do so due to the company's existing targets and performance architecture. Training the next generation of managers will require both hard and soft measures to develop the necessary skills and mindsets, but also to embed those within performance management frameworks.

Providing formal education

Beyond training the next generation of managers, businesses can also help ensure the supply of talent through proactively shaping curricula of schools at both the secondary and university levels. For example, The Renault Foundation actively participates in educating and developing young talent. In collaboration with top university engineering programs they have created specific M.B.A. and Master

Courses around mobility, electric vehicles and sustainable transport. The Foundation contributes €2.7 million (US\$3.3 million) to its mission every year and, since its creation, has welcomed more than 370 students from nine countries.³⁵

Where education in sustainability issues does not already exist, we are increasingly seeing examples of businesses taking responsibility for its provision. In North Africa, for example, the SEKEM Group has set up its own university, the "Heliopolis University for Sustainable Development." Opening in autumn 2010, it will teach Bachelor-level courses focused on organic agriculture, pharmacy, sustainable economics and engineering (e.g., renewable energies, water management and mechatronics).³⁶

Attracting and engaging employees

It is clear that CEOs see a more prominent role in the future for sustainability performance in recruiting talent. "Companies that have not embedded sustainability will face significant challenges in recruiting the next generation," said one CEO from the financial sector. Action on the part of individual businesses, using their reputation on sustainability as a critical differentiator, can aid the transition to an era in which sustainability will be a core element in attracting the brightest employees. One European banking CEO told us how a survey of graduates seeking employment in two of the company's key markets cited performance on sustainability issues as the most important factor in helping them choose a potential employer, and highlighted the importance of social media channels in promoting the company to potential employees.

Belief in the role that sustainability performance can play here is particularly pronounced in Latin America, where 86 percent of CEOs—compared with a global average of 73 percent—identify the role of sustainability in recruiting talent as a crucial condition in reaching a tipping point in sustainability. As Luiz Ernesto Gemignani, Chairman of Promon S.A., the Brazilian infrastructure company, told us, "Environmental, social and governance issues are crucial to our employee value proposition."

Creating a business that is both sustainable and profitable requires efforts by people at all levels of the corporation; thus, engaging employees in the sustainability agenda is vital to success. As one telecommunications CEO told us, employees "want to see what their company's doing... if their company's doing well then they are proud of it." Businesses will need to take more concerted action both to communicate progress on sustainability issues to their employees, and to involve them in developing relevant innovations. For example, UK communications company BT runs an employee suggestion scheme that has proven a highly successful way of engaging workers on sustainability issues; it has also helped the company develop innovative ideas and solutions to existing challenges.

Although the link between employee engagement and productivity may be difficult to quantify in financial terms, there are many examples where performance on sustainability issues is leading to higher employee retention rates. Better retention can, in turn, reduce the cost of recruitment and retraining and can protect a company against the loss of corporate knowledge and experience. For example, the Martha Tilaar Group in Indonesia points to attrition rates far lower than the industry average, due in part to the organization's focus on long-term community development. And Pranda Jewelry PCL in Thailand reports retention rates 20 percent to 30 percent higher than the industry average—citing the company's approach to sustainability as a key reason for success.

3. Leading the creation of an investment environment more favorable to sustainable business

One of the most common refrains in our conversations with CEOs related to the importance—but absence—of the investor community as part of the solution to sustainability challenges. However, our conversations with members of the investor community revealed two sides to the story and helped identify the steps needed to ensure that the power of financial markets can be used to drive sustainable outcomes.

Actions businesses can take to influence attitudes and valuation models of the investment community

To help engender a new dialogue with investors, there are two principal actions that businesses can take: Track the impact of sustainability on core metrics and become more proactive in shaping the attitudes and mindsets of investors.

Track impact on core metrics

Businesses must be able to measure and track the impact of their sustainability activity on core business metrics such as revenue growth, cost reduction, risk management and reputation. By doing so, they will be able to educate investors as to the impact of their sustainability activity in terms that can be built into valuation models. As one business leader from Goldman Sachs told us, "We need to realize that analysts bring with them an education rooted within the green borders of Excel. But we are talking about externalities that very often are not linked directly to line items. CEOs need to be able to link these to cash flow and the balance sheet." Tracking impact in this way will be difficult for many businesses since it reflects directly on the extent to which they have aligned business and societal outcomes. But over the next decade it is likely to prove an essential element within a broader corporate approach to managing performance (see following section on Performance Management). As Fulvio Conti, CEO and General Manager of Italian electricity and gas company Enel S.p.A., told us: "There should be a focus on integrated reporting of CSR and financial results, which could bring about an alignment of sustainability with economic performance."

Be more proactive with investors

According to Edemir Pinto, CEO of São Paulo stock exchange BM&FBOVESPA, "CEOs may complain that investors do not value their sustainability activities properly, but they need to tell investors what they are doing: If they don't communicate regularly, investors cannot incorporate these issues into their models." In addition to engaging and challenging investors on the importance of sustainability performance, CEOs need to be more proactive in communicating progress on a regular basis.

CEOs who do take a more proactive approach to engaging investors in appropriate terms appear to be achieving significant results. This is the experience of Paul Polman, CEO of Unilever, who talked of how "the financial community is increasingly looking at companies and rewarding those that think smartly about their use of resources." This highlights how a proactive approach to talking about specific sustainability initiatives with investors can have a rapid and direct impact on the valuation of specific markets—and set the company apart from its competitors.

Some companies are wary of the risks of acting alone when it comes to new forms of valuation based on sustainability initiatives and outcomes. They may feel that moving as an industry, rather than as an individual corporation, is a safer approach. However, if a company's sustainability investments do ultimately deliver value, CEOs will be able to tell a story that stands up to scrutiny. If both stakeholders can come together—businesses and the investor community—CEOs believe this cooperation could overcome one of the key barriers to the alignment of market forces and sustainability outcomes. As one European telecommunications executive told us, "There are two things that need to happen to move from a philanthropic attitude toward sustainability to 'embeddedness.' First, we need measurable sustainability targets that are built into corporate targets. Second, investors may only invest significantly when that embeddedness is clear and visible. If business and investors understand and support such targets and measurement, we can create a win-win for all."

CEOs also see an integral role for the UN Global Compact in creating this kind of cooperation between business and the investment community. For example, UNGC's Principles for Responsible Investment (PRI) initiative can help promote understanding and dialogue between business and investors (see section later in this chapter on the role of the UNGC).

4. Embedding new concepts of value and performance at the organizational and individual levels

CEOs believe that we are moving toward an era in which businesses will no longer focus purely on profit and loss as the primary means of valuation, but rather take into account also the positive and negative impacts on society and the environment. As Hans Vestberg, CEO of telecommunications company LM Ericsson, told us: "We believe that it is not only a company's economic performance that determines its success, but rather successfully combining economic performance with active management of how the business impacts on social and environmental factors." Or in the words of Jamshed J. Irani, Director of India's Tata Steel: "You cannot be a spike of prosperity in a sea of poverty."

The impact of this shift will be threefold. First, it will require businesses to measure their sustainability performance in terms of their positive and negative impact on society. Second, it will require businesses to link their performance on sustainability to traditional business metrics and value creation (e.g., revenue growth, cost reduction, risk management and brand/reputation). Third, it will necessitate the embedding of sustainability outcomes within employee performance frameworks and remuneration packages. This will require new kinds of information systems and analytics to support a company's sustainability performance management.

There are already signs that businesses are recognizing the need to measure their broader impact on society. As one CEO in the financial sector told us, "The movement away from shareholder value maximization to a real understanding about how the business adds profitably to the common good is an all-important shift." For example, Danish health care company Novo Nordisk has integrated measurement of its sustainability performance across the organization into a balanced scorecard. International brewer Heineken has also recently released a report that sets out its economic impact on the 19 European countries in which the company operates, calculating that in 2009 Heineken directly and indirectly employed 495,000 people and contributed €11.65 billion (US\$13.9 billion) through value creation, defined as value added and created by supplying the retail and hospitality sectors.³⁷

However, although 91 percent of CEOs believe that companies should measure both the negative and positive impacts of their activities on sustainability outcomes, only 71 percent say that they are doing so already. Although such analyses are often complex and open to differing interpretations, they are likely to become more prevalent as businesses seek to reassert a more expansive role in society, with wider concerns beyond profit and loss within their own business.

The same mixed picture seems true of companies making the link between sustainability and traditional metrics of current or future value such as revenue, cost, risk and intangibles. "We're getting better and better at tracking the benefits," said one European business leader, "but there's still a lot of work to be done. If you're looking at the cost of materials, or energy costs, then it's very easy...but brand value is more difficult to assess." Although businesses are making some progress, it is clear from the survey data as well as from our conversations that executives are struggling to structure effective performance management across the business on more tangible measures such as carbon, water and waste emissions management as well as on intangible assets such as the value of trust, reputation and effective stakeholder management.

Embedding sustainability into the performance and remuneration packages of top executives and management was seen by many CEOs as perhaps one of the most effective means of ensuring more active management and monitoring of sustainability impacts. "People have a habit of doing what you pay them to do," one business leader told us. Another executive, in the automotive sector, explained, "We have changed the incentives for our board and management, so in addition to traditional economic metrics they now incorporate additional criteria based on consumer and employee satisfaction...we're trying to move toward greater long-term thinking."

We found several innovative approaches for more embedded metrics programs. For example, global utility National Grid plc has a target of 80 percent greenhouse gas reduction across its businesses by at least 2050, with a mid-term reduction target of 45 percent by 2020.³⁸ To drive performance at the individual level, in 2009 the company launched a carbon remuneration scheme that embeds carbon targets in the pay packages of senior leaders and management. The scheme has provided a source of public differentiation since National Grid is able to point to a willingness to take action and put individual rewards on the line in the interests of better environmental outcomes. It has also demonstrated National Grid's advanced capabilities in detailed analysis and quantification of the environmental impact of their operations. Although there are still challenges ahead, National Grid's approach to carbon business planning has gone a long way toward resolving the traditional tension between a reward cycle that operates on an annual basis and performance objectives that need to be measured over much longer timescales.

Based on conversations with many CEOs who had embarked on setting sustainability targets for top executives—or were considering doing so—National Grid's story may be the sign of things to come.

Actions businesses can take to develop new organizational and individual performance targets

To shape organizational and individual behaviors around sustainability goals, businesses can take the following concrete actions.

Ensure governance and reporting structures are in place

Research has shown that the primary responsibility for sustainability performance management usually falls to heads of sustainable development. However, chief financial officers are usually better placed to link performance on sustainability issues to business performance metrics.³⁹ Putting in place the right governance and reporting structures can help businesses ensure that sustainability performance is not measured and managed in a silo. Rather, it can help sustainability performance become part of the standard set of metrics by which senior management makes decisions. This also requires the right performance management architecture in place. As one business leader in the banking sector told us, "We are rapidly realizing the limitations of our Excel-based performance management approach."

Be selective about the metrics chosen

Having performance metrics is good; having the *right* metrics is even better. It can be a challenge, however, to achieve the right balance of coverage in measuring performance on sustainability issues. In the words of Chen Ying of the Beijing Rong Zhi Institute of Corporate Social Responsibility, "Measuring these outcomes is difficult. You either are too broad or too narrow in what you measure. Striking the balance is the challenge." The tendency for many businesses is to be too broad, rather than focusing on a smaller set of metrics for which the levers of influence are strong. As Tae-won Chey, Chairman and CEO of Korean conglomerate SK, told us, "It is important to identify material issues which will contribute to long-term success." A certain degree of creativity may be required to apply traditional financial metrics to nonfinancial issues.

Reconcile short- and long-term metrics

Even if the right metrics can be chosen, tracked and linked to business value creation, a key challenge in employee remuneration relates to the time period over which performance is rewarded. There is an inherent tension between a reward cycle that operates on an annual basis and sustainability performance objectives that typically need to be assessed over a much longer timescale. Tackling this issue head-on and ensuring employees are fully aware of the basis on which they are rewarded will be essential to embedding sustainability in individual performance frameworks.

5. Creating a clearer and more positive regulatory environment for sustainability

To avoid the unintended consequences of unhelpful regulation, build trust and provide a more informed basis for policy making, businesses can adopt a more proactive and collaborative approach with governments. A range of actions is possible, from the straightforward to the complex.

Actions businesses can take to help create a more positive regulatory environment

Increase collaboration

One readily implemented approach, for example, comes from the Spanish central bank, which co-located some of its members at the offices of Grupo Santander to promote greater understanding, openness and collaboration. Similarly, we came across numerous examples of companies being part of government working groups to help jointly find solutions to common challenges.

Alternatively, cooperative efforts can involve more complex undertakings to raise standards across a large and diverse industry. For example, the diamond industry was faced with a range of reputation problems as reports emerged of "conflict diamonds" (diamonds mined in a war zone and sold to finance continued violence) entering the mainstream market in the 1990s. This created a significant risk for De Beers, the industry leader. The company therefore played a key role in engaging with multiple stakeholders to develop the Kimberley Process, a certification program aimed at preventing armed movements from using diamonds to fund conflict. As of December 2009, the Kimberley Process (KP) has 49 members, representing 75 countries, and is chaired on a rotating basis by executives from companies in participant countries. Its members account for approximately 99.8 percent of the global production of rough diamonds. Under the KP, participating states must meet "minimum requirements" and put in place national legislation and institutions, as well as export, import and internal controls. They must also commit to transparency and the exchange of statistical data. Participants can only legally trade with other participants who have also met the minimum requirements.⁴⁰

Set expectations regarding the limits to business responsibility

The steps that businesses can take to help bring about a tipping point in sustainability in concert with other stakeholders underlines the role that CEOs see for businesses: as an enabler within a wider ecosystem where each player focuses on how they can deliver most value and then collaborates accordingly. It also underscores the limits to the role of business on some issues. Specifically, in some instances it does not make sense for business to take a leading role—particularly if another stakeholder is better placed. Society may have expectations of business playing a leading role in addressing sustainability, but businesses also need to have the confidence to identify

where they can—and cannot—add most value. As one top executive told us, “Business can be an effective enabler that facilitates and brings together a network of actors. But there are limits to business responsibility.” Businesses need to be more proactive and clearer in engaging with regulators and wider stakeholders to help set expectations about where they can—and cannot—achieve the most impact on sustainability issues.

The role of the UN Global Compact: Facilitating collaboration and action

The response of CEOs to the work to date and ambition of the UN Global Compact was overwhelmingly positive. CEOs see the need for a legitimate global convener of business that can help promote collaboration between different stakeholders. It is here that the United Nations—through the Global Compact, under first Kofi Annan and now Ban Ki-moon’s leadership—continues to provide an important platform.

As Steve Lennon, Managing Director of Eskom’s Corporate Services division, told us, “The Global Compact gives us an anchor: Over the last ten years, it’s had the same principles, and it gives us a means of benchmarking our performance and acts as a mirror for us to see how we perform.”

Beyond that, CEOs believe that the UNGC has a key role to play in helping to address some of the business and sustainability challenges they outlined to us.

Sharing best practices on implementation

As businesses move from strategy to execution in sustainability, they are struggling to overcome both internal and external barriers to integration. It is vital for companies to understand practices from other companies that can help overcome these challenges. Thus, 64 percent of CEOs identify sharing “examples of best and emerging practice on sustainability” as the most helpful role for the UNGC over the next five years (see Figure 4-2).

Furthermore, 51 percent highlight “guidance on implementation of sustainability issues throughout the organization” as another key role. As Alessandro Profumo, CEO of UniCredit S.p.A., told us, “The Global Compact has a unique opportunity to act as a platform for sharing knowledge and best practice on sustainability.”

According to Jürgen Hambrecht, Chairman of BASF SE, “The role of the UN Global Compact as a peer learning and dialogue platform is highly appreciated by our company, since it combines high-level commitment with hands-on learning and dialogue networks at the local level. The Compact has an outstanding outreach and impact.”

Furthermore, as the UNGC celebrates its tenth anniversary, there is an appetite from member CEOs for the Compact to move from policy to action. As Toshio Arima, Director of Fuji Xerox Co. Ltd., told us: “During the first ten years we’ve been discussing direction. Now is the time to implement that direction into business and societal mechanisms.”

Working with educators

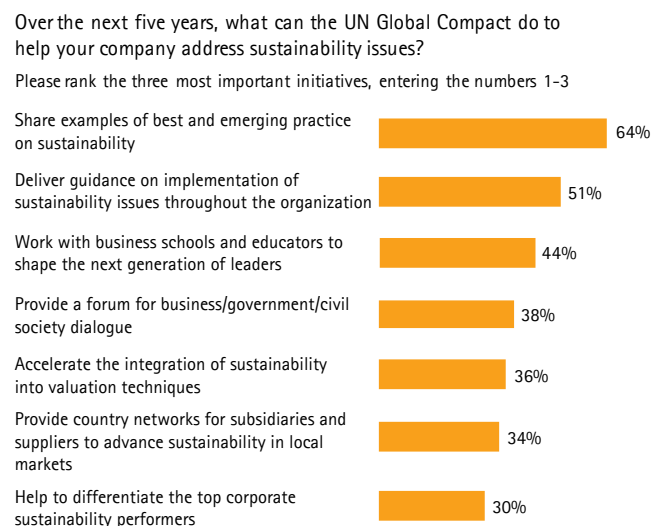
As discussed earlier in this chapter, CEOs were clear about the importance of education in helping to reach a tipping point in sustainability. As further validation of this theme and the role that the UNGC can play in furthering progress, 44 percent of CEOs cite “work with business schools and educators to shape the next generation of leaders” as one of the most important initiatives to help their business over the next five years. This gives further validation to existing efforts in this area, such as the Principles for Responsible Management Education (PRME). The broader concern for failing education systems may also imply broadening the remit beyond business schools.

Promoting sustainable investment

CEOs believe that raising the bar on sustainable investment will be crucial, reinforcing the importance of the Principles for Responsible Investment (PRI). This is borne out both by the significance attached by CEOs to the whole question of corporate valuation and investor engagement. Reflecting this, 36 percent of CEOs identified accelerating the integration of sustainability into valuation techniques as one of the most important initiatives to help their business.

Nevertheless, CEOs identified an opportunity for the UN Global Compact to go beyond simply raising awareness and capabilities throughout the investment community through PRI, to support CEOs and member companies to better measure and communicate the value of sustainability to the capital markets.

Figure 4-2: CEOs see the most helpful role of the UN Global Compact as sharing best practices and providing guidance on implementation



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Making the case for open markets

Many of the CEOs we spoke with mentioned the role of the UNGC in making the case for open markets and globalization, helping to align market forces with sustainability. According to H.E. Akbar Al Baker, CEO of Qatar Airways, "By promoting and embedding the principles of the Global Compact, business, as the primary agent driving globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere and contribute to a more sustainable and inclusive global economy."

In the words of a business leader in the telecommunications sector, "Market forces are not against the environment, and if incentivized in the right way they can contribute to environmental and social outcomes. Governments need to put more emphasis on architecture, ecosystems and incentives instead of rules and regulations." Making this case, however, will require UNGC members to be more vocal in the public policy arena. Many of the CEOs we spoke to felt that this was not yet happening enough. They believe that the UNGC can play an important enabling and convening role.

Building on diversity of membership

The diversity of the Global Compact membership—ranging from small- and medium-sized enterprises to large multinationals—is one of its unique strengths and as such it offers a network in which companies at different stages of development in terms of their approach to sustainability can help each other. As Martha Tilaar, Chairwoman and Founder of the Martha Tilaar Group and one of the Compact's founding members, said, the role of the UNGC over the next five to ten years should be "to encourage better collaboration among the growing membership, such that smaller companies can learn from larger companies in their geography, and adopt best practice strategies." And as Yasuchika Hasegawa, President of the Takeda Pharmaceutical Company, told us, "We believe that providing frequent opportunities for many determined companies to engage in mutual communications will result in increased practice, and the wider spread of the UNGC."

However, diversity of membership can also present significant challenges. With companies from both developed and emerging markets, there is a need to ensure a method that recognizes that issues and approaches may be different. As one European business leader told us, "The UN may be the only organization that can bypass religious and geographic tensions. The transformation of the principles into a code of conduct should be done in conjunction with emerging market companies, and only then shown to the Europeans and the Americans, to avoid the sense that the emerging markets are being dictated to."

Toward a new era of sustainability:

Leading the way

Based on our interviews with CEOs, we are starting to see a future era of sustainability with new opportunities and challenges. The increased complexity of sustainability issues and more diffuse networks through which they will have to be managed will take businesses into new, often unfamiliar terrain. CEOs believe, however, that this is a future where the role of business is integral to development. In the words of Gareth Penny, Group CEO of De Beers, "Successful business is what drives sustainable growth."

Understanding this reality will help businesses take important steps toward not only creating more sustainable economies and societies, but in building capabilities that ensure their own high performance and competitiveness on the journey to a new era of sustainability.

The CEOs we spoke to described a situation in 2010 best summarized as "the end of the beginning" rather than "the beginning of the end." Aligning markets and sustainability outcomes will require constant renewal and adaptation from businesses themselves and in collaboration with others. Many challenges and discontinuities lie ahead.

A new era of sustainability is far from guaranteed and will require both leadership and urgency. As Idar Kreutzer, Group CEO of financial services company Storebrand ASA, warned: "The risk of inaction is the greatest risk facing business."

The one critical imperative is the need to act—and act now.

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Authors

Peter Lacy, Tim Cooper, Rob Hayward, and Lisa Neuberger.

Supporting Authors

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About the UN Global Compact

The United Nations Global Compact is a call to companies everywhere to: (1) voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and (2) take actions in support of UN goals, including the Millennium Development Goals. By doing so, business can help ensure that markets advance in ways that benefit economies and societies everywhere.

Endorsed by chief executives, the UN Global Compact is a leadership platform for the development, implementation, and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate responsibility initiative in the world—with over 7,000 signatories based in more than 135 countries, and Local Networks existing or emerging in 90 countries. More information: www.unglobalcompact.org.

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Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights on sustainability issues based on our ongoing investments in research, including recent studies on consumer expectations and global executive opinion on climate change.

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