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United Nations Global Compact

UN Global Compact-Accenture CEO Study

Towards a New Era of Sustainability in the Banking Industry

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Foreword

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 to shape the conversation on corporate sustainability over the coming years, and 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.



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Introduction

Noel Gordon and Peter Lacy

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 significant findings of a new study from the United Nations Global Compact and Accenture, *A New Era of Sustainability*. The report—based on a survey of 766 United Nations Global Compact (UNGC) member CEOs, in-depth interviews with an additional 50 member CEOs and further interviews with senior business and civil society leaders—represents the largest such study of CEOs ever conducted on the topic of sustainability. The study included a sample of more than forty major banking firms around the world, and interviews with CEOs at leading financial institutions including Calvert Group, HSBC, Grupo Santander, Storebrand, UniCredit and UBS.

Although it is clear that CEOs believe strongly in the importance of sustainability, and are committed to integrating environmental, social and governance issues into their day-to-day operations, they see many challenges ahead in truly embedding sustainability into core business. Most immediately, CEOs see challenges internally in managing competing strategic priorities and the complexities of integration. Many leading companies believe that sustainability issues are already integrated into their strategic thinking, but face significant challenges in embedding these issues into their day-to-day operations, especially throughout their supply chains and subsidiaries.



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Beyond their individual companies, too, CEOs believe that much will be required to shape a landscape conducive to more sustainable business. It is readily apparent that uncertainties regarding consumer demand, investor interest in sustainability and future government regulation must be clarified, and that a new debate will be required to articulate new concepts of value and make the case for the benefits that business can bring in meeting societal challenges.

As we look towards the next decade, and new waves of growth, it is clear that CEOs are beginning to recognise the scale of the challenge they face in aligning sustainability with core business, and in creating the environment necessary for sustainable business to prosper. They also recognise, however, that this transition will depend on the economy's most powerful force, business—and that, with immediate and sustained action, individual companies can play a critical role in building the foundations of a more sustainable economy. Nowhere are the opportunities greater than in the banking industry, and we hope that this is a timely and useful contribution to advancing sustainability in the sector, with a unique insight in the views of CEOs and global leaders on what it will take to reach a new era of sustainability.

Noel Gordon, Peter Lacy

Executive Summary

The sustainability landscape is changing

Since the last study in 2007, we have witnessed a fundamental change in CEOs' views on sustainability. Business leaders worldwide, particularly those in the banking sector, now see sustainability as central to their business: 98 percent of the banking CEOs we surveyed, and 93 percent of CEOs overall, believe that sustainability issues will be important to the future success of their business.

As CEOs perceive ever-greater links between business performance and their sustainability capabilities, it is clear that the environmental, social and governance issues at the heart of a sustainability strategy are featuring higher on the executive agenda. In our conversations with CEOs, we have seen how sustainability is increasingly seen as an important element in how many companies respond to core strategic challenges.

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.

One leading executive articulated the challenge succinctly: "Trust has been badly damaged by the events of the financial crisis, and rebuilding trust cannot be done overnight." Among all CEOs surveyed, strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues, identified by 76 percent of banking executives and 72 percent of CEOs overall.

However, CEOs often assume that their own company is more respected and trusted than their industry in general. For example, 66 percent of banking executives believe their industry is trusted, but 73 percent believe their own company is trusted. This leads to a real concern that executives may underestimate the extent of public mistrust in business.

The drivers and approaches to sustainability are changing

Banking CEOs identify education and poverty as the two most important global development issues for the future success of their business. Seventy-eight percent of banking executives, higher than the global average of 72 percent, rated education among their top three most critical development issues.

Almost equal numbers of CEOs—76 percent—also named poverty as one of their top-three issues—significantly higher than the cross-industry, global number of 51 percent, reflecting the connection between social development

imperatives and the core business of the industry, as well as the fact that growth in emerging markets will depend on raising the standard of living in those areas.

This perspective was also reflected in the fact that higher percentages of banking CEOs—39 percent to 29 percent across industries—stated that the impact of development gaps on business has motivated them to take action on sustainability issues.

Challenges to overcome: From strategy to execution

Our study found widespread agreement among CEOs about what a new era of sustainability would look like: it is one where sustainability is not a separate strategic initiative, but something fully integrated into the strategy and operations of a company. CEOs believe the ideas and commitment is there, but that execution of those ideas 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 percent of banking CEOs stated that sustainability issues are now fully embedded into the strategy and operations of their company. Our conversations with leading executives on the challenges of integration, however, suggest that this level of confidence may be interpreted as a overconfident assessment of companies' progress, or may be evidence of a lack of understanding of what full integration really entails.

Although 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 banking CEOs who agree that sustainability should be embedded throughout their subsidiaries (95 percent) and supply chain (83 percent), and those who report their company is already doing so (68 percent and 51 percent, respectively).

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 (61 percent in the banking industry) feel that this tipping point is within a decade away, and 80 percent (78 percent in banking) believe it will occur within 15 years: an optimistic view perhaps unthinkable in 2007 and testament to the change taking place.

CEOs 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 sustainability challenges to manage, but also significant opportunities for those who can master its dynamics.

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.

Pioneers of the New Era

Even though there are many barriers and challenges in the pursuit of a more sustainable banking industry, leading companies are starting to successfully forge a path toward that goal. The innovations of pioneers in the sector show

companies addressing some of the key industry challenges whilst starting to create the backbone of a sustainable industry:

- **Energy efficiency of operations:** banks are increasingly looking to improve the environmental footprint of their own operations, reducing emissions while cutting costs.
- **Understanding of environmental risks:** as estimates suggest that as much as 40 percent of some companies' EBITDA could be at risk from emerging carbon constraints,¹ banks are seeking innovative ways of incorporating their growing understanding of sustainability into risk management and portfolio assessment.
- **Serving emerging markets:** in extending their geographic footprint in the emerging markets, leading banks – both western and domestic – are discovering new linkages between business success and social development. Through initiatives in credit provision and microfinance, for example, the industry is realizing new opportunities for growth through facilitating economic development.
- **Transition to a low-carbon economy:** the banking sector will play a critical role in facilitating the transition to a low-carbon economy: in financing the innovation and infrastructure development required, banks see new opportunities to take advantage of new waves of growth.



- Increasing trust through better stakeholder relationships: CEOs in the sector realize that rebuilding public and stakeholder trust will be paramount, and that engaging more closely with customers will enable them to create significant competitive advantage in the industry.

Accelerating the tipping point: Business action is needed

In order to overcome marketplace and economic challenges and accelerate a tipping point in the integration of sustainability into core business, CEOs believe that a number of essential 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.

Banking CEOs, along with their peers from all industries around the world, are willing to step up to the challenges ahead. They recognize that our current period 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 41 CEOs in the Banking industry, from 29 countries

98%

98% of banking CEOs believe that sustainability issues will be 'important' or 'very important' to the future success of their business.

98%

98% of banking CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

63%

63% of banking CEOs report that they are incorporating sustainability issues into their strategy and operations 'much more' than five years ago – compared to 34% across industries.

76%

76% of banking CEOs cite 'brand, trust and reputation' as among their top three factors driving them to take action on sustainability issues.

88%

88% of banking CEOs see 'accurate valuation by investors' of sustainability as important to reaching a tipping point in sustainability.

20%

20% of banking CEOs identify governments will be an important stakeholder group in impacting the way they manage societal expectations – compared to 39% across industries.

90%

90% of banking CEOs see 'merging of sustainability and financial metrics in reporting' as important to reaching a tipping point in sustainability.

56%

56% of banking CEOs cite complexity of implementation across functions as the most significant barrier to embedding sustainability.

88%

88% of banking CEOs report that their company will employ new technologies to address sustainability issues over the next five years.

Part One

Background and Industry Context

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 priorities, sustainable business practices and products are opening up new markets and sources of demand, driving new business models and sources of innovation and altering industry cost structures.

One of the clearest insights arising from our conversations with banking CEOs is that their perception of sustainability is changing. For many leading companies, environmental, social and governance issues are no longer viewed principally through the lens of marketing or risk management alone, but are increasingly seen as an integral part of core business activities, and a vital element in addressing several of the key strategic challenges faced by the industry. In the wake of the financial crisis, questions of trust, risk and social utility are foremost in the minds of those charting a course for the future of the industry – and there is a growing realisation that sustainability will sit at the heart of efforts to rebuild the social contract.

Although the banking industry's direct environmental footprint may be minimal, its ability to influence the transition towards a more sustainable economy is unparalleled. The growing opportunities to finance new waves of growth and innovation mean that, aside from the direct reputational benefits, there is now a risk-adjusted, profitable business case for taking sustainability seriously.²

Increased regulation and governmental intervention

The financial crisis has led to a large number of governmental and regulatory actions that seek to increase the stability of the financial sector, reduce excessive risk taking, protect consumers and ensure credit availability. Whilst an increase in regulation and oversight is widely acknowledged as a necessary reaction to the financial crisis, one of the consequences of increased government intervention has been to increase the complexity of the regulatory environment and the presence of multiple, uncoordinated, and sometimes contradictory initiatives.

Although the 2009 G20 Financial Summit resulted in stated commitments to a unified approach to regulation, the United Kingdom, United States and Europe have been introducing significant and disparate changes to their regulations (e.g. Dodd-Frank and the UK's Independent Commission on

Banking) with few immediate prospects for a more cohesive approach. These complexities are being added to other changes such as increased risk and reporting requirements, and more stringent oversight of executive remuneration.

Some of the increases in regulatory intervention are rooted explicitly in sustainability concerns. Financial regulations, for example, are beginning to focus on issues related to climate change: in the U.S., for example, the Climate Change rule enacted by the Securities & Exchange Commission, the federal agency which holds primary responsibility for enforcing federal securities laws and regulating the securities industry, requires companies to identify pending actions to comply with federal, state and local provisions or legal actions whose costs could be material. Organizations must note significant factors that could render an investment speculative or risky, and disclose decisions concerning trends, demands, commitments, events and uncertainties that are reasonably likely to have a material impact on climate change. In requiring the banking sector to take a more holistic attitude to risk, regulators aim to create a more sustainable banking sector and ensure that banks play a role in the wider transition towards a low-carbon economy.

In light of this regulatory situation, banks will need to re-evaluate their strategies and develop new internal operations, processes and governance structures with the intention of developing enhanced business and product transparency along with more proactive management of risk – including investment and credit.

Banks that can effectively adapt in this manner, becoming more transparent and risk-aware, will not only improve their trust and relationships with clients, governments and regulators, but will also be better positioned to deal with future financial crises. Having built these principles into the operating model of the firm, banks will be able to respond more efficiently to future regulatory requirements, improving their ability to manage risks and avoiding costs and penalties of non-compliance.

Declining public and customer trust

The recent financial crisis has eroded public trust in the banking sector – but banks may have underestimated the negative effects of the downturn on their business. The 2010 Edelman Trust Barometer saw trust in banks plummet globally: in the US, banking moved from the third most trusted to the third least trusted industry.

The post-crisis customer is now less tolerant of poor service quality and more than willing to switch banks. More comparative information is available, and consumers are willing to do their own research: as a result, bank switching is nearly double its pre-crisis levels. Two thirds of global senior executives surveyed as part of recent Accenture research identified shopping around, decreased loyalty and price sensitivity as the key changes they are observing in customer behavior. Importantly, more than half of the executives Accenture spoke to had seen customer trust drop in banking brands.³

The industry is also becoming more competitive, with many new entrants using innovative business models to offer differentiated products and services in areas such as social banking and social finance, which focus in particular on investing based on social responsibility.

A sustainability mindset is driven to a large extent by long-term customer relationships. Product-driven banking models, as opposed to customer-led models, are less acceptable to the post-crisis consumer. The emerging customer landscape requires a new set of banking capabilities, including better insights into customer behaviors and needs, and new approaches to reach and engage them.

As the landscape becomes more competitive it is essential for banks to re-build trust and develop deeper, longer-lasting customer relationships, rather than taking a view focused only on short-term returns. Being more interactive is critical:

educating customers about services and products in a more transparent and honest way. Looking to educate and protect customers will also be important—for example, seeking to ensure that customers have manageable debt levels instead of taking a credit sales approach. Banks will also need to build stronger ties to their communities, including efforts to ensure financial access to consumers and business. This interactive, community-oriented banking approach will ultimately lead to more sustainable banking operations and practices, and those banks who can adapt to a changing consumer environment have the potential for significant advantage in an increasingly competitive market.

Growing impact of new technologies

The rapid pace of technological innovation is having a dramatic impact on the banking industry, both internally and externally. Many new technologies are being adopted that present new opportunities for improvements in operations, processes and communications, as well as product and service development.

Four major technological trends are especially influencing competition in the banking industry:

- Cloud computing: through providing computing services 'on demand' and software 'as a service', cloud computing allows organisations to bypass the expense and both of buying, installing, operating, maintaining and upgrading the networks and computers found in data centers.



- 'The 4 Cs': solutions leveraging and integrating technologies touching upon communication, collaboration, communities and content.
- Analytics: Tools and approaches that turn data and information into insights for better decision making, innovation and steering of the organization.
- Mobility: Mobile technologies support new products as well as new modes of working that can reduce a company's carbon footprint through teleworking, telepresence, etc.

Technology has a critically important role to play in driving sustainability in the banking sector and in creating new business opportunities. Cloud computing and other innovations such as next-generation data centers not only are better for the environment and more cost effective with reduced usage of water and energy, but also allow for more flexible and cost-effective product development. This means banks also have an opportunity to target underserved markets with higher returns on investment.

Technology is also driving new types of banking, including mobile banking and mobile payments. This new direct channel to customers is opening up the banking sector to many new parts of the world, such as sub-Saharan Africa. New approaches to retail banking are enabling many of the world's poorest customers to get better access to banking products and services, creating new opportunities for business to promote social development.

Not only is technological change impacting how banks operate internally, it is also driving significant change in the way they communicate and collaborate with their external stakeholders. As banks develop new analytics to effectively digest and draw insights from the increasing amount of data on their portfolios, consumers, markets and competitors, they will be able to make better, more informed decisions.

Technology is a huge source of opportunity in the banking sector. The highest performing banks are starting to use new technologies in bold, innovative ways as a source of competitive advantage across their whole business. The key challenge is doing more – and doing it more profitably.

Growth in emerging markets

Emerging markets—including the 'Next 11' countries as well as the major economies of Brazil, Russia, India and China—have become a dominant force in today's global banking industry. Over 50 percent of the world's global GDP comes from emerging markets, with nearly 100 of the Fortune 500 companies based there. The bulk of global growth in the near term will stem from these regions, and it is predicted that real private consumption in the B6 countries will exceed that of the G6 by 2025.

These emerging markets are increasingly a source of innovation for sustainable business models and practices. For example, about 75 percent of the world's mobile phone subscribers are now in the developing world, with 634 million

in China alone. This is clearly a significant opportunity to further expand efficient and sustainable banking services. Banks will need to understand the slightly different needs and wants of their emerging-market customers to craft products and services that are profitable and at the same time advance societal goals.

Banks will play a key role in facilitating economic development and trade – through microfinance initiatives, for example – and therefore have a responsibility to facilitate this in a sustainable way. This is an opportunity for banks to take a role in promoting economic development and reducing risk in emerging markets – gaining a first-mover advantage along the way.

Transition to a low-carbon economy

Because of the growing impetus—especially from citizens and governments—to reduce carbon emissions, carbon finance is poised to become one of the key tools to support the transition to a low-carbon economy. Banks have a key role to play, as the transition will depend on companies being able to access capital to support their investments, and financial institutions can mobilize this capital.

Investments supporting the rollout of low-carbon technologies (including renewables and energy efficient infrastructure) have seen steady growth in the past five years, reaching US\$40.2 billion globally for 2009. Investment was even resilient through the economic downturn, with only 5 percent reductions in 2008.

A recent research report from Accenture and Barclays, Carbon Capital, which focuses on the growth of low-carbon technologies over the next decade, suggests that €2.9 trillion will be required to finance the development and rollout of new technology in Europe alone over the next decade.⁴

Although uncertain policy frameworks and a host of technology risks are increasing the difficulty of investing in low carbon technology, banks can realize new opportunities by meeting these challenges. New revenue streams are available by offering products and services such as liquidity, arbitrage, structured products for project financing, risk mitigation, capital leveraging and financial diversification.

As CEOs perceive ever greater links between business performance and sustainability, it is clear that environmental, social and governance issues are featuring higher on the executive agenda, and that there is a widespread belief that integrating these issues into core business and investment decisions will be critical to future success.

Part Two

Sustainability and Banking: State of the Industry

Banking executives' belief in the importance of sustainability is solid, in spite of the recent economic downturn

CEOs' belief in the importance of sustainability is strong within the banking industry. Ninety-eight percent of the executives surveyed affirmed the importance of sustainability to the future success of their business—a number higher even than the cross-industry, global average of 93 percent. This is a remarkable finding, given that executives might be justified in believing that the environmental impact of financial services is less than for industries such as energy, automotive and utilities.

The global economic downturn might have been expected to weaken the commitment to sustainability issues. In fact, it seems to have done the opposite: 78 percent of banking CEOs believe that the economic downturn has raised the importance of sustainability as an issue for top management, and just 7 percent of banking CEOs report that their company has reduced investment in sustainability as a result of the downturn.

Three-quarters of banking executives affirm that the downturn has driven their company to take a longer-term view of business and the role of sustainability, and it is

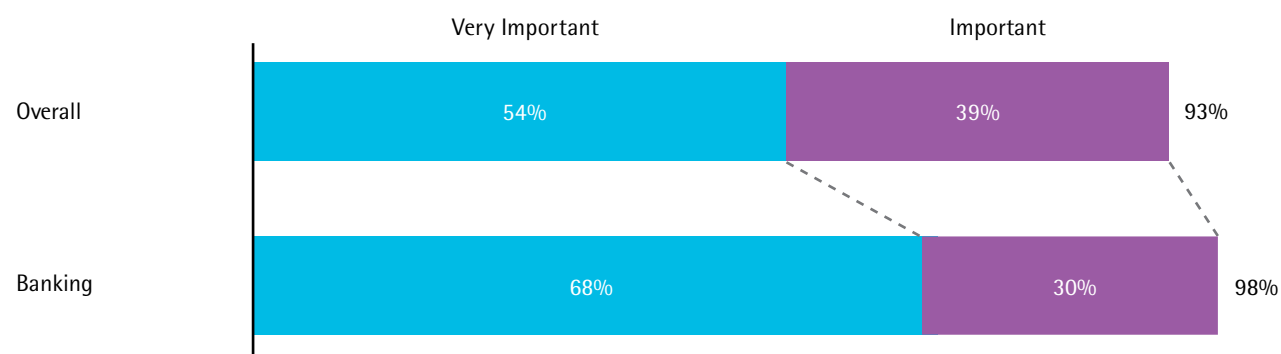
apparent from our conversations that the financial crisis has had a profound impact on banks' perception of the importance of social and governance issues, particularly as they influence their reputation in society.

The breadth of sustainability issues is growing

It is clear from our conversations with CEOs that they are almost united in their belief that sustainability will be an important and disruptive trend within their sector—but what do they mean by 'sustainability', and which issues are uppermost in their minds? The breadth and complexity of sustainability issues are growing, and they are increasingly tied directly to future business success. As this alignment increases, the scope of sustainability varies significantly by industry, often driven by those environmental, social and governance issues on which a particular industry has the greatest impact.

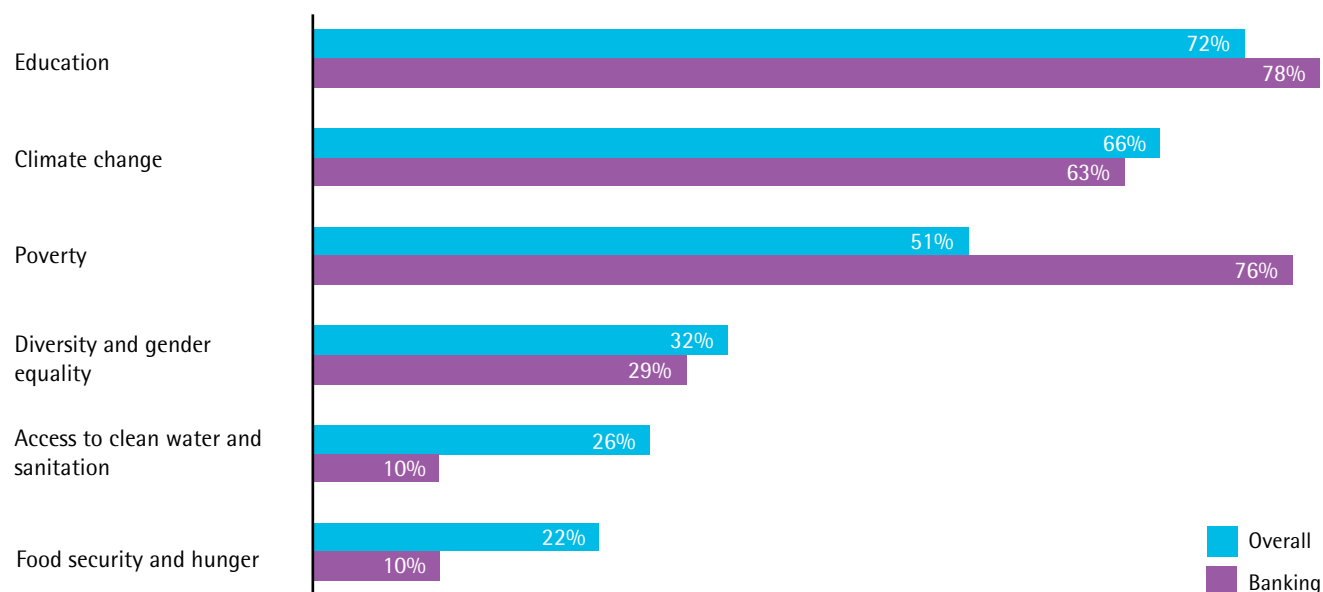
In banking, CEOs join their peers from other industries in affirming education as the most important global development issue for their business: 78 percent named it one of their top three issues, higher even than the global average of 72 percent. Poverty was a concern almost equal in importance, with 76 percent of banking executives

Figure 2.1: How important are sustainability issues to the future success of your business? (Respondents answering 'Important' or 'Very important')



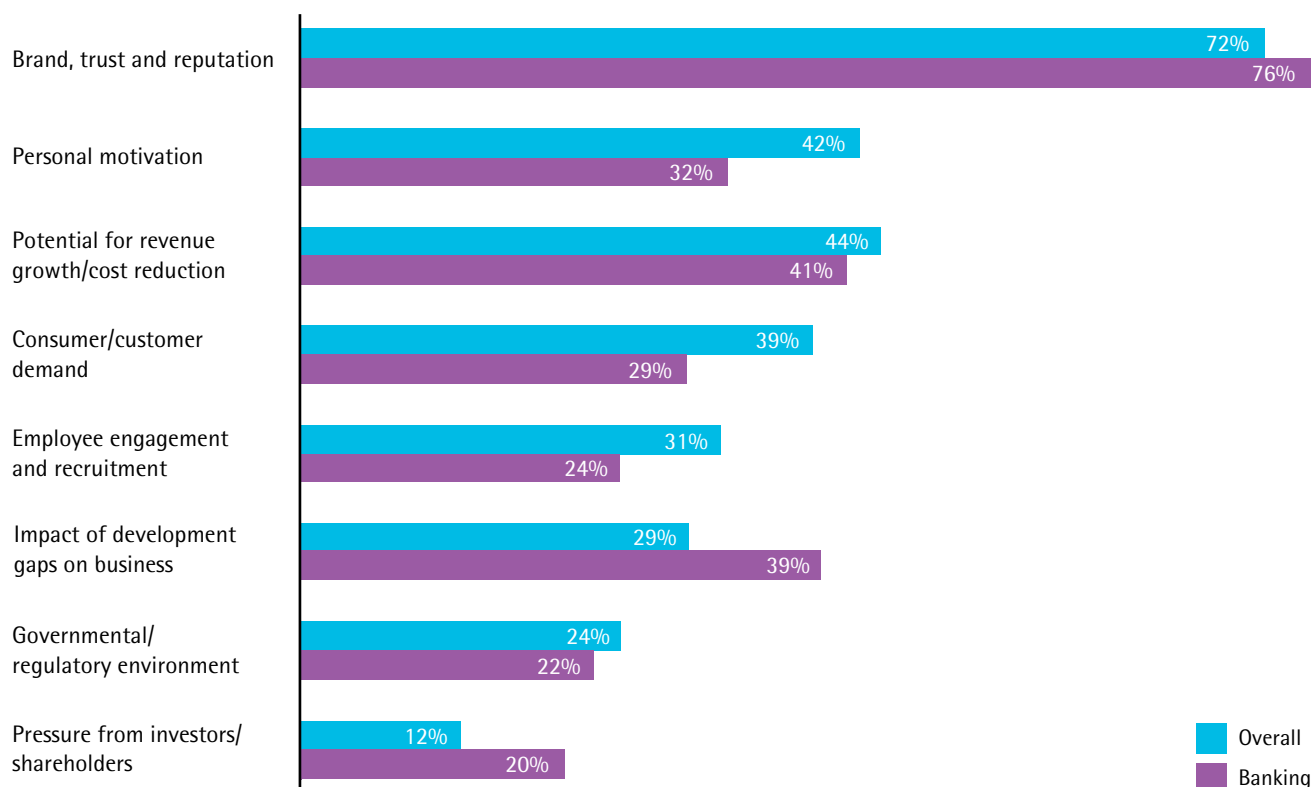
Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

Figure 2.2: Which of the following development issues are the most critical to address for the future success of your business? (Respondents answering 'Important' or 'Very important')



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

Figure 2.3: Which factors have driven you, as a CEO, to take action on sustainability issues? (Respondents selecting each option as one of their top three choices)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

naming it amongst their most critical issues, reflecting the connection between social development imperatives and the core business of the industry, as well as the fact that growth in emerging markets will depend on raising the standard of living in those areas.

CEOs see enhanced reputation and potential for revenue growth and cost reduction as the greatest opportunities of sustainability

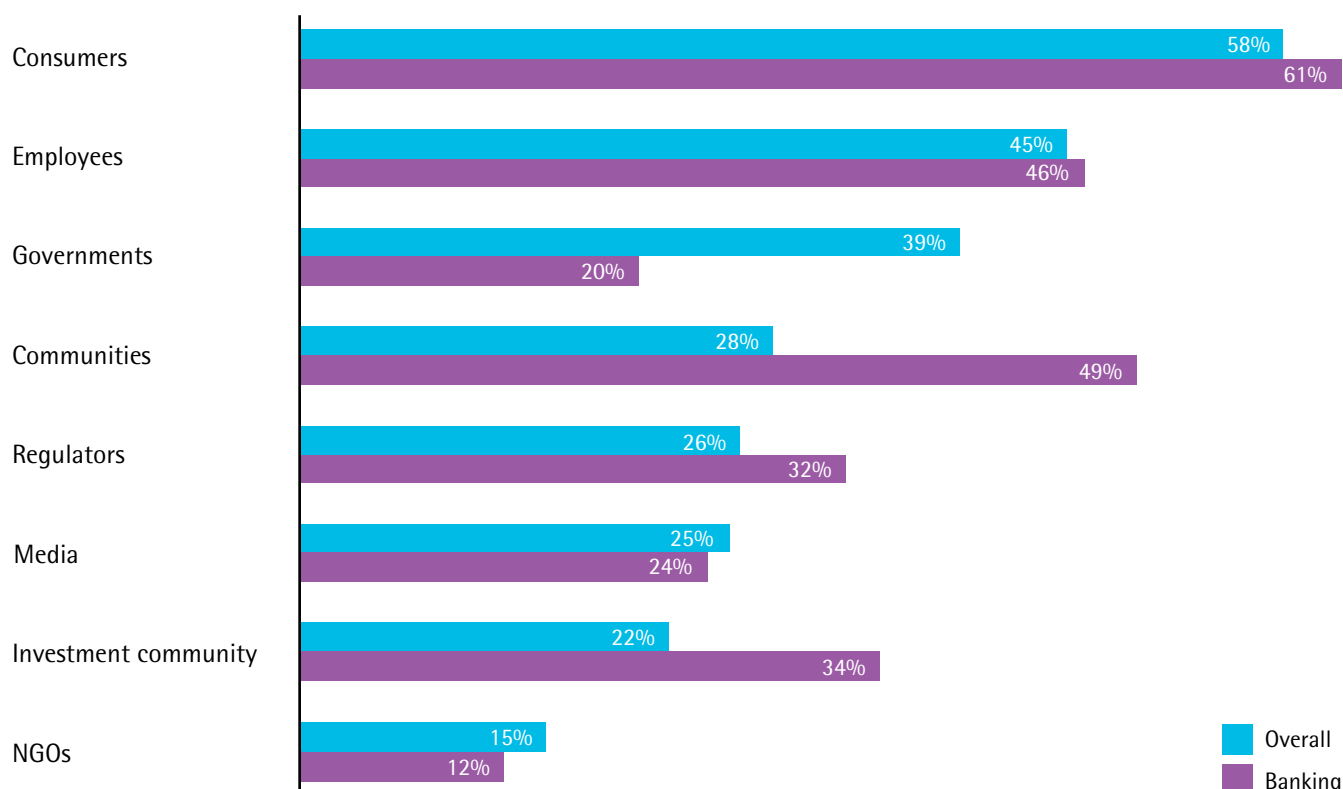
The most commonly cited factor motivating CEOs to take action on sustainability issues is 'brand, trust and reputation', selected by 76 percent of banking CEOs as one of their top-three factors (about the same as the global average of 72 percent). This focus on reputation as the primary motivating factor could be seen as a reflection of the 'old' sustainability—a marketing-led exercise only tangentially aligned to core business—but it may also reflect the heightened awareness of trust and reputation in the current economic climate, and the growing role of sustainability in shaping the perceptions and purchasing decisions of consumers and enterprise customers alike. According to Kaspar Villiger, Chairman of UBS, "We have lost trust and need to regain it with a culture of responsible behavior."

Consumers are a key constituency: 61 percent of banking CEOs named consumers as one of their most important stakeholders in shaping their action on sustainability. In the wake of the downturn, as banks seek to build their brands, consumer trust will be critical—and action on sustainability, improving companies' records on environmental and social issues, is seen as a core element in generating trust.

Elements of an approach to sustainability more directly aligned with core business are visible in the other factors that leading companies cite as motivators in taking action in sustainability. Banking executives are especially interested in how sustainable operations and strategies can improve revenues and help reduce costs. Forty-one percent of these CEOs cite the potential for revenue growth and cost reduction as an important motivator in taking action on sustainability issues.

It is clear from our conversations with banking executives that they see the opportunity down the road to drive business value and differentiated customer relationships from sustainability. This opportunity-oriented attitude is summed up well by one leading European executive: "The transition to a low-carbon economy will present many opportunities for us. For example, we are a leading bank in project financing for renewable energy, so it is not a discontinuity, but an opportunity for us with our customers."

Figure 2.4: Over the next five years, which stakeholders will have the greatest impact on the way you manage societal expectations? (Respondents identifying each factor in their top three choices; top selections)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

CEOs are aware that this is a seismic shift for business and society. In the words of one leading executive, "The movement away from everything you do being about shareholder value maximization to a real understanding about how the business adds profitably to the common good is an all-important shift."

The new era of alignment: Embedded sustainability

The CEOs in the UNGC-Accenture study were largely in agreement on what a truly business-oriented approach to sustainability in a new era would look like. It is one in which sustainability is not simply one among many programs, but rather sits at the heart of a company's strategy and operations: an approach we term 'embedded' or 'integrated' sustainability. As Idar Kreutzer of Storebrand told us, "Corporate responsibility has become mainstream, and everyone is trying to understand the strategic impact to their business."

High percentages of banking executives believe in this integrated approach, whereby sustainability is actually helping to fuel the essential engine of business. Ninety-eight percent of banking CEOs believe sustainability issues

should be embedded into the strategy and operations of the business; 95 percent believe such embeddedness should extend to subsidiaries and 83 percent would also extend it to the global supply chain.

Eighty-five percent also supported metrics embedded in business processes to track performance against sustainability objectives; 71 percent believed in using sustainability goals as a measure of employee performance. Clearly, banking executives take this matter seriously, and understand that sustainability goals must be backed up with different approaches to operations and performance management.

A convergence of mindsets

As this overview of the current state of the industry has shown, the mindsets of banking CEOs are converging on a common understanding of the importance of sustainability, as long-term drivers of consumer demand and resource constraints have been accelerated by the economic downturn. A majority of CEOs now believe that sustainability should be embedded within core business, but significant challenges lie ahead in making that vision a reality.

Part Three

Overcoming sustainability challenges on the road to a new era

The challenges ahead: Closing the performance gaps

CEOs are aware that truly embedded sustainability is a vision of the future, not a description of the operations and strategy of most companies today. Yet the majority of executives believe that a 'tipping point'—where momentum clearly shifts to an era in which sustainability is fully integrated into the strategy and operations of the majority of businesses globally—can be reached within a decade. Given where companies have been on these issues in recent years, this amounts to an optimistic, even enthusiastic, endorsement of the future of sustainability—though with a chastening recognition that many challenges lie ahead.

The principal challenge in reaching the new era is one of execution. While considerable progress has been made since 2007, the shift in mindsets towards widespread recognition of the sustainability imperative has raised the bar for companies seeking to execute their strategies and embed sustainability into core business.

Although the support for sustainability among CEOs in the banking industry is strong, these executives see significant challenges in executing strategies for managing

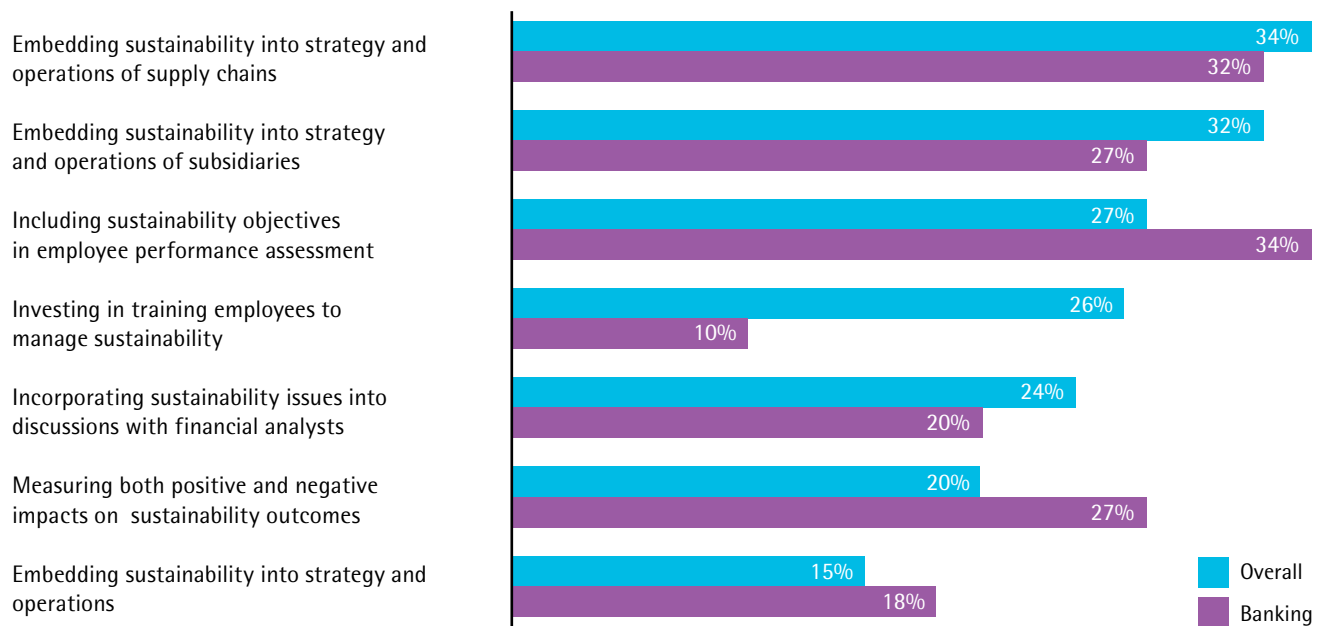
sustainability effectively. Our study found a significant performance gap between what CEOs believe companies should be doing, and what they report about their own company's performance.

For example, while 98 percent of bank executives say that sustainability issues should be integrated into strategy and operations, only 80 percent say such integration exists in their company, a performance gap of 18 percent—and our conversations with CEOs on the challenges of integration suggest that even this may be interpreted as overconfidence.

Digging deeper into the specifics of execution when it comes to integrated sustainability, additional gaps are apparent: for example, 95 percent say sustainability should be integrated into a company's subsidiaries, but only 68 percent have achieved such integration. Similarly, 83 percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, but only 51 percent are confident this has been achieved.

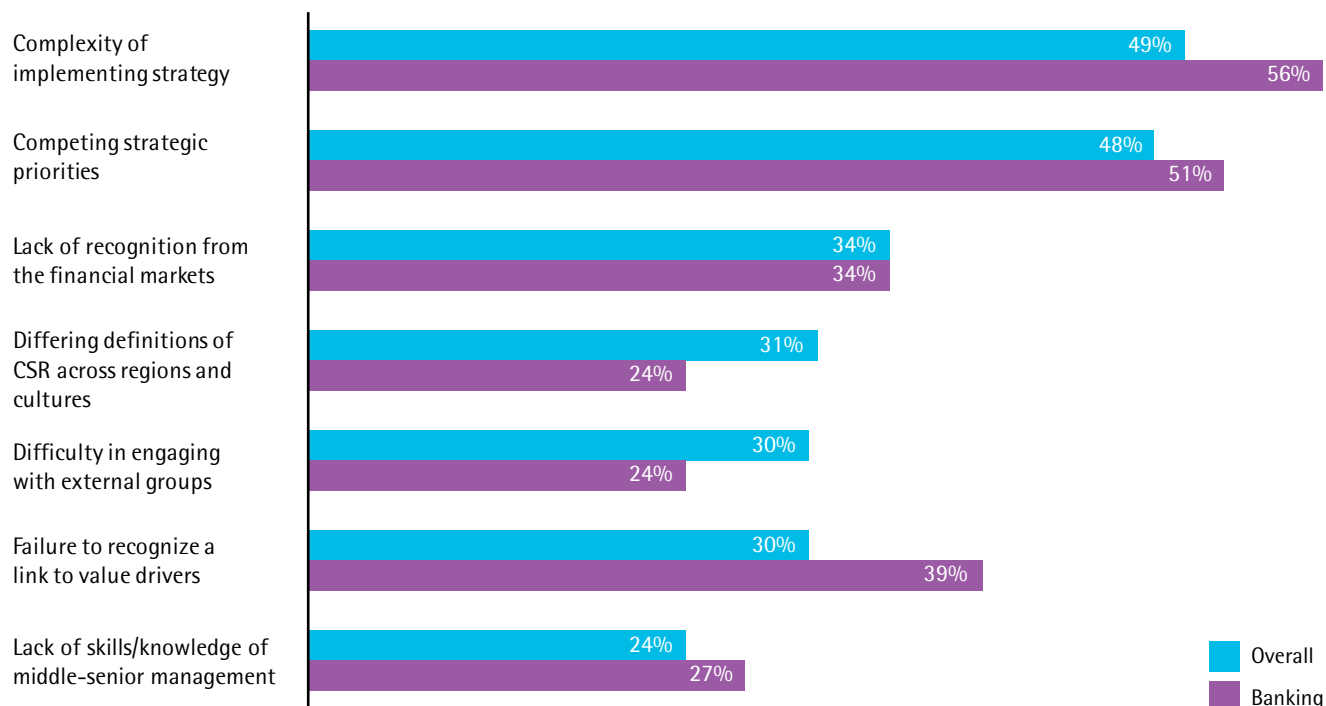
In closing these performance gaps, and matching their undoubted ambition with execution, CEOs see both internal and external challenges.

Figure 3.1: Performance Gaps between 'companies should' and 'my company does' (Selected performance gaps)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

Figure 3.2: Which barriers keep you, as a CEO, from implementing an integrated and strategic approach to sustainability? (Respondents identifying each factor in their top three choices)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

Internal challenges

Companies face a number of internal challenges to executing a strategy that embeds sustainability across the business. As Kaspar Villiger of UBS puts it, "The more you can integrate sustainability into business, the more it becomes a widely accepted approach; but taking the first step on certain issues can be tricky." Foremost among the challenges are the need to balance and prioritize multiple objectives and initiatives, and to manage complexity across business functions.

Managing complexity

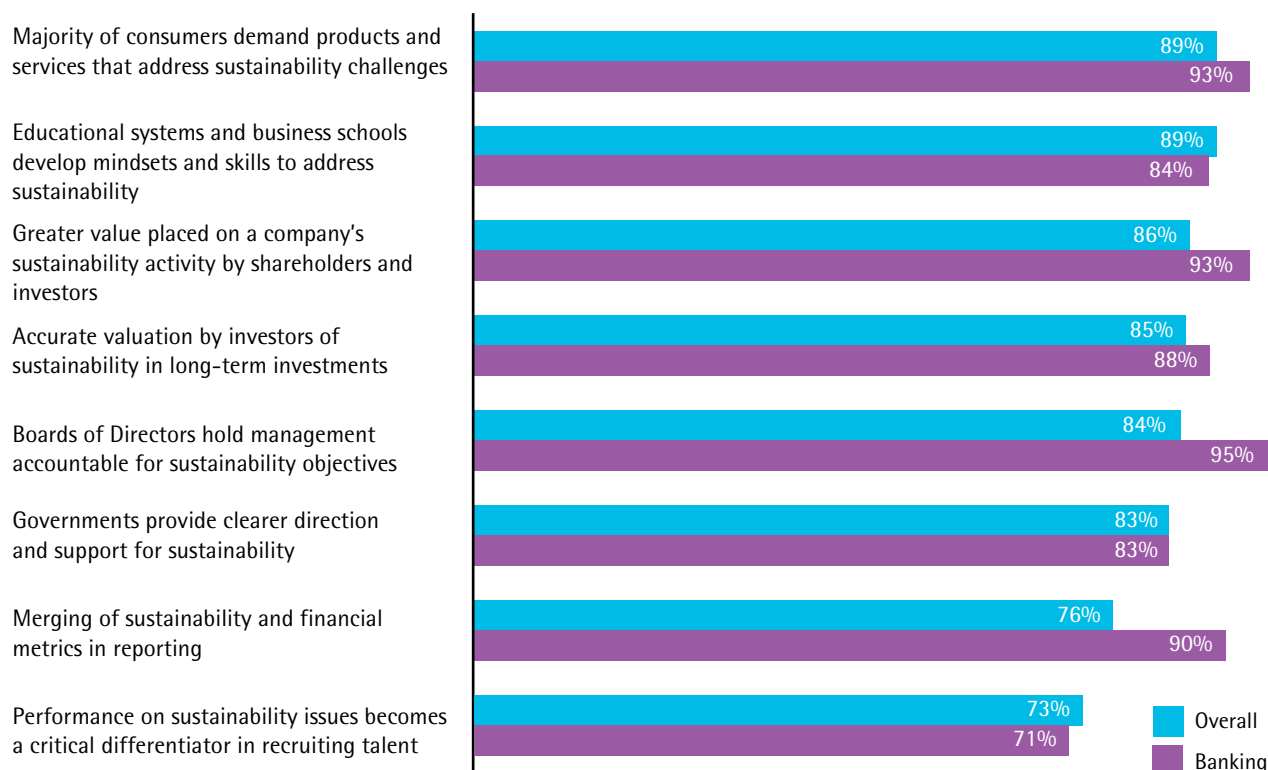
CEOs report that the most significant barrier to an integrated, company-wide approach to sustainability is the complexity that accompanies implementation across different functions. Fifty-six percent of banking executives say such integration is their primary obstacle (higher than the survey average of 49 percent). Growing 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, company-wide approach across large, increasingly complex and global businesses.

Competing strategic priorities

Fifty-one percent of banking executives also report that balancing competing strategic priorities is currently a significant barrier to implementation of sustainability issues. This highlights the challenges of reconciling the need to take a long-term perspective on sustainability issues with a turbulent market environment that often forces companies to make decisions based on near-term pressures. As Kaspar Villiger of UBS puts it, "The behavior of companies is being scrutinized and also criticized by more and more people. This creates a certain pressure to constantly consider one's behavior as society finds it increasingly difficult to accept even minor mistakes by a company."

So although there is widespread belief in the strategic importance of sustainability issues among CEOs, executives are still struggling to approach sustainability as part and parcel of core business. "It is not surprising that CEOs highlight competing strategic priorities as a major barrier," said a CEO from another industry. "It shows that sustainability is not yet embedded across all of their priorities." This observation bears witness to the fact that for many businesses, 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.

Figure 3.3: 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-Accenture CEO Study 2010 (based on 766 completed responses)

One need is to find better ways to incorporate long-term perspectives into business strategy, moving from a focus only on immediate maximization of shareholder value to broader questions about the common good and more general societal value. A big question to be considered is whether there is potential competitive advantage to companies that are able to execute longer-term strategies and monetize visions beyond a 'this-quarter' horizon.

People and performance

Performance gaps are also apparent with regard to the capabilities and assessment of employees. Eighty-eight percent of banking CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 78 percent report that their company already does so. It should be noted, however, that this figure is significantly higher than the survey average of 60 percent: banks are taking the matter of retraining very seriously.

Beyond training, however, performance management processes—incorporating sustainability objectives into employee performance assessments from the frontline to the boardroom—must also change so that knowledge is

translated into behaviors. Here, too, our survey data shows a gap between ambition and reality—the largest gap in the banking executive survey data. Although 71 percent of banking CEOs believe that sustainability objectives should be included, just 34 percent report that such metrics are currently taken into account at their own company.

External challenges

As well as overcoming the internal challenges of integration, CEOs also believe that a number of barriers in the external environment exist that are preventing companies from adopting a more embedded approach. Although these barriers cannot be overcome by business acting alone, CEOs recognize that companies will need to play an active role in shaping the necessary conditions for sustainability to prosper. The most prominent of these challenges, based on our discussions, relate to the role of business stakeholders—in particular, consumers, investors and regulators.

Understanding consumer and customer demands

Recognizing the supreme importance of the consumer in the industry—and reflecting the transition from sustainability as a risk management issue to one of opportunity for innovation and growth—61 percent of banking CEOs consider consumers to be key drivers of change, the most important stakeholder group named. 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.

For some businesses, this uncertainty could spark a stand-off, whereby scepticism about the extent to which sustainability influences consumer behaviors leads to companies not attempting to stimulate demand for sustainable products and services. On the other hand, many executives are starting to see a situation in which genuine growth in demand for products and services that address sustainability outcomes is being strengthened by proactive marketing, branding and innovation: 93 percent of banking executives believe that a critical moment in reaching a tipping point in sustainability will come when the majority of consumers demand products and services that address sustainability challenges.

One of the underlying issues here is whether companies lead demand, or whether in fact they simply respond to the marketplace. If they are to lead, and not just be reactive, then consumer education and communication with regard to products' sustainability benefits will be crucial to success. Sustainability metrics may be difficult for the consumer to interpret and contextualize, so companies will need to demonstrate relevant and tangible personal benefits to the individual consumer—for example, cost savings, reduced carbon emissions and benefits to local communities such as increased employment.

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 34 percent of banking CEOs identify the investor community as one of their most influential stakeholders over the next three years. As one



European business leader told us, "The real pressure [to act on sustainability] would be investor pressure." Most executives 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 towards companies around the world integrating sustainability into core business.

Achieving more regulatory certainty

As environmental regulations change and expand around the world, banks will need to improve their ability to navigate the regulatory maze and engage with government agencies proactively.

Eighty-three percent of bank executives believe that governments and policy makers will increase their interventions in driving sustainability, but just 56 percent said they would welcome such involvement, wary perhaps of over complicated regulations and the potential for unintended consequences. Barbara Krumsiek, President and CEO of the Calvert Group, perhaps expressed the general perspective of the industry with regard to regulation: "Business needs clarity in the rules to compete and plan efficiently. We can't have uncertainty and the threat of regulation: it can cause paralysis."

From our conversations, it is apparent that banking CEOs are committed to the importance of sustainability to future business success, and determined to integrate sustainability objectives into core business. CEOs' belief in the centrality of sustainability means that their companies are beginning to take real, innovative actions to set their companies on the road to a new era of sustainability. However, they also recognize that the journey will be long and complex, and that they will have to overcome a series of challenges, both internal and external, to reach a tipping point where sustainability is truly embedded in companies worldwide.

Part Four

Pioneers of the New Era

How leading companies are finding the link between sustainability and high performance – and what a more sustainable industry might look like

The future will not be created based only on good ideas or by regulatory fiat, but rather by the innovations of real companies pushing the boundaries of what is possible. As business leaders stressed throughout our conversations, progress in embedding sustainability will depend on businesses being able to forge, understand and communicate linkages with core business challenges and opportunities, as measured through revenue growth, cost reduction, risk management and brand value.

The innovations of sustainability pioneers in the banking industry show companies addressing the key challenges of the industry through explicit programs aimed at embedding sustainability into every aspect of business, including supply chains, product design and innovation, marketing strategies and stakeholder relationships.

These instances, in which companies are finding the meeting-point between business and societal value, can give us a piece-by-piece picture of what a high-performing company might look like if the industry can overcome the challenges of integration, and shape the conditions that will be conducive to more sustainable companies operating in a more sustainable economy.

Energy efficiency of operations

Sustainability can provide valuable enterprise-wide focus for rapid and sustained cost management. From working with clients in parallel industries, and taking into account cost bases in the sector, Accenture estimates that combined

initiatives in Smart Buildings, Smart Logistics and Green IT can remove between 1-2 percent from the cost bases of most investment banks.⁵

Many banks have successfully made significant strides in emissions and cost reduction through energy efficiency. Paperless statements and electronic payments have an important impact, for example, as has the use of carbon neutral buildings and telepresence. Many banks have led the way in terms of environmental responsibility. Lloyds Banking Group invests almost £5 million annually in specific energy saving and energy efficiency measures across the Group,⁶ and Wells Fargo has signed up to the U.S. Green Buildings Council LEED buildings program, and aim to register 2,500 buildings over the next two years.⁷

Facing twin pressures of cost reduction and an imperative to improve environmental performance, leading banks are taking action to address their direct environmental impacts and reduce their cost base. As one leading European executive told us, "If sustainability is about using resources efficiently, then it serves the cost agenda as well."

Understanding of environmental risks

Investors are also focusing on 'material issues' of sustainability, in particular climate change – especially since some estimates suggest that as much as 40 percent of some companies' EBITDA could be at risk from emerging carbon constraints.⁸ Investors worth US\$65 trillion in assets under

management have demanded greater disclosure of carbon emissions performance through the Carbon Disclosure Project (CDP), who collect, distribute and motivate companies to take action to prevent climate change.⁹

The industry is beginning to grapple successfully with the inclusion of environmental impacts into its investment criteria. For example, more than 70 financial institutions have signed the Equator Principles, a voluntary set of standards for determining, assessing and managing social and environmental risk in project financing. The principles apply to all new project finance transactions with total project capital costs above US\$10 million.¹⁰

Lloyds Banking Group is one of the signatories to the Equator Principles. During 2009, Lloyds implemented a harmonized group-wide approach to monitoring and reporting Equator Principles transactions, and to training personnel on the Equator Principles. An Equator Principles Review Group has been formed, comprising experts from both Risk and Project Finance teams, and supported by external environmental consultants. This Group is responsible for reviewing all new Equator Principle transactions, to ensure that each transaction is compliant and is consistent with the Group Environmental Risk Policy, prior to being sanctioned. All Equator Principles projects are reviewed as part of an annual review process.¹¹

Acquisitions can be a way to quickly bring in sustainability expertise and increase understanding. For example, 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. One result has been 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 has enriched its approach, replicating local practice on a global scale.¹²

Serving emerging markets

The microfinance industry continues to play an important role in creating a more sustainable business environment in emerging markets and some major banks are playing a role. HSBC works with microfinance institutions, which in turn provide loans to customers. For example, in India HSBC is working with 11 microfinance institutions to provide finance to around 250,000 people in rural and urban areas.¹³

Lending principles are also changing in support of sustainable growth and development outcomes. For example, in Uganda, a 'Banking on Change' project is being led by CARE with the support of Barclays. The program aims to establish more than 1,000 community-managed savings and loan associations to provide members of disadvantaged communities with a source of credit which they can use for necessities and income-generating activities. The partners are also providing training to the community on business and entrepreneurial skills.¹⁴

The Rabobank Foundation—the philanthropic unit of the Netherlands's Rabobank—is active in the field of fighting poverty in 25 developing countries. Its related focus is on microfinance and sustainable chain development. The Rabobank Foundation develops and supports rural savings and credit co-operatives and microfinance institutions, as well as micro-insurance institutions.¹⁵

Mobile technologies represent an important way for banks to serve the so-called 'base of the pyramid' consumers around the world—by some estimates, 4 billion strong. HSBC Bank Brazil has rolled out fully integrated mobile banking (m-banking) services for its retail customer base. Through HSBC Direct, its recently launched virtual bank, HSBC Bank Brazil is the first bank to offer fully integrated m-banking services to its retail customers, allowing them to withdraw cash from ATMs, conduct transactions, make money transfers and online payments and check their balance, loans and investment statements.¹⁶

Banks can often leverage partnerships with established mobile carriers and services to have an impact faster. In Africa, Equity Bank teamed with communications provider Safaricom that will allow users of the popular m-payments service, M-PESA, to apply for an M-Kesho savings account or apply for loans, with their creditworthiness being assessed on their M-PESA record, and the loan money credited to their M-PESA account. Customers can also open interest-earning savings accounts, and make both deposits and withdrawals through the system.¹⁷

Transition to a low-carbon economy

Progress in driving better environmental performance and the transition towards a low-carbon economy will depend in large part on those financing major projects. The role of the banking industry in facilitating this transition is clear: from the scope of issues included in due diligence to the pursuit of new financing opportunities opened up by renewable energy and intelligent infrastructure, the banking sector will be critical to the ability of companies and industries to address sustainability challenges.

Accenture's recent research with Barclays on the growth of low-carbon technologies in Europe over the coming decade suggests that €2.9 trillion will be required to finance the development and roll-out of new technology, placing an onus on banks to identify and unlock these opportunities for growth.¹⁸

Bank of America is ahead of schedule on its 10-year, \$20 billion climate-change business initiative launched in 2007, according to the company's 2010 Environmental Progress Report. As of the second quarter of 2010, the financial institution has directed \$8.4 billion of the \$20 billion environmental commitment through lending, investing, capital markets activity, philanthropy and the company's own operations. The program is directed at companies that require investments or access to capital markets to develop and commercialize energy technology, and commercial real estate developers and businesses looking to finance energy-efficient expansion. It also targets larger



enterprises that want to lease energy-saving equipment to become more efficient or use renewable sources of energy, and investors seeking guidance on emerging opportunities in the alternative energy sector.¹⁹

Increasing trust through better stakeholder relationships

One bank that is reinventing relationships with customers is Caja Navarra in Spain. The bank has committed itself to a concept it calls 'civic banking'. The brand strategy is built around transparency, accountability and social responsibility. For example, the bank encourages customers to get involved through social media in how the company uses its profits to support socially responsible projects, and to help monitor progress of those projects.²⁰

HSBC provides an example of what better consumer education and outreach can mean in practice. HSBC's success in rebuilding public trust saw it surge up Fortune's Global 500 Accountability Rating – reaching third place in 2008, up from 43rd place in 2006. As noted earlier, education is ranked highly among banking CEOs as a concern driving sustainable business practices, and HSBC is making investments to back up that concern. The company partners with non-governmental organizations across the country, which works with children from underprivileged communities. The project support helps

children go to school, learn in a positive environment and learn to live a healthy life. The bank also works with young adults to provide vocational training and life skills so that they are able to help themselves lead a productive life.²¹

Assembling the jigsaw: towards a more sustainable industry

As we have seen, the innovations of individual companies allow us to build a picture of what a more sustainable industry might look like. Across every aspect of the value chain, leading financial institutions are beginning to go beyond business-as-usual, and are using sustainability as a lens to focus on the critical opportunities offered by the transition to a low-carbon economy. Despite strong progress, however, CEOs recognize that they must do more, and that to reach a tipping point they must accelerate the journey to a new era of sustainability.

Part Five

Accelerating the journey to the new era of sustainability

The 2010 UN Global Compact-Accenture CEO Study has uncovered a picture of global business, and global attitudes toward sustainability, much changed since the last study 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.

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 towards a tipping point whereby sustainability is fully integrated into the majority of businesses globally, and examples of the actions that businesses can take to begin shaping these conditions.

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

Ninety-three percent of banking 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.

The companies of many CEOs we spoke with are starting to shape emerging tastes and preferences for sustainable products and services, to both create and meet this market. As one 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: measuring and communicating the whole-life impact of products through production, manufacture and consumption; and improving the provision of consumer information and education, particularly through meaningful and accessible metrics on sustainability impacts. As one North American CEO told us, "Consumer information will change behavior." By tracking and 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.

2. Generate new skills and mindsets within the company to drive sustainable development

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

First, at the broadest level, CEOs believe we need better education systems 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. This is especially important to banks as they seek to expand into emerging markets.

Second, executives especially believe that education of a new generation of managers, through universities and business schools in particular, should focus on the broad set of skills needed to manage sustainability issues, especially in partnering with a more extensive ecosystem of partners, both cross-industry and cross-sector.

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

CEOs see a need for their own companies to increase investment in training targeted specifically towards generating the right knowledge, skills and attitudes for every one of their people to integrate sustainability objectives into their roles and responsibilities: 88 percent of banking CEOs believe that companies should invest in enhanced training of managers to integrate sustainability into strategy and operations—but only 78 percent are currently doing so.

More broadly, it seemed clear from our discussions with CEOs that often they were faced with a cadre of middle and senior 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.

3. Support the creation of an investment environment more favorable to sustainable businesses

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. Eighty-eight percent of banking executives see 'accurate valuation by investors of sustainability in long-term investments' as important to reaching a tipping point in sustainability. 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.

Although there is a grain of truth in companies' complaints that the investment community may turn a deaf ear to the value of sustainability, it is equally true that many companies do not do enough to communicate and engage investors in the impact of their sustainability activities: just 63 percent of banking CEOs report that they currently incorporate sustainability issues into discussions with financial analysts—although 83 percent say that's what they should be doing.

According to Edemir Pinto, CEO of Sao Paulo stock exchange BM&F Bovespa, "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.

This also means, then, that companies must become more proficient at measuring and tracking 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 that are used and understood by the investment community.

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

CEOs believe that we are moving towards an era in which businesses will no longer focus exclusively 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 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."

Our conversations with CEOs paint a mixed picture of companies making the link between sustainability and current or future value expressed in terms of revenue, cost, risk and intangibles, let alone measuring and articulating their impact beyond these traditional metrics. "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.

Beyond the confines of financial performance, CEOs see a further challenge: although 100 percent of the banking CEOs surveyed believe that companies should measure both the negative and positive impacts of their activities on sustainability outcomes, only 73 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 impact of this shift will be three-fold. First, it will require businesses to measure their sustainability performance in terms of their positive and negative impact on society. For example, 'whole-life impact assessments' can track a company's resource footprint across production, manufacturing and consumption. Second, it will require businesses to link their performance on sustainability to traditional business metrics and value creation. 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.

5. Create a clearer and more positive regulatory environment

Alfredo Saenz, CEO of Grupo Santander, puts the need for a more positive regulatory environment well: the financial crisis "has put public policy issues and relations of industry with authorities on the frontline which three years ago was not the case...then, the issues were growth and expansion."

To avoid the unintended consequences of unhelpful regulation—and to build trust and provide a more informed basis for policymaking—businesses should adopt a more proactive and collaborative approach with governments, focusing on building sustainable mindsets geared towards operating with the spirit – and not merely the letter – of regulations. As Barbara Krumsiek of Calvert Group puts it, "We cannot write enough regulation to force people to do the right thing."

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 business 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 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.

Figure 5.1: 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 for banks, based on CEO interviews

- Identify and quantify opportunities for new products and services created by sustainability, e.g. financing for low-carbon infrastructure and new technologies
 - Improve provision of customer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts
 - Differentiate from competitors through communication of shared values and innovative thinking on social development, climate risk, abatement and adaptation
-
- Invest in enhanced training of managers on sustainability issues
 - Shape educational curricula and partner with academic institutions to develop knowledge, skills and attitudes necessary to manage sustainability effectively
 - Communicate progress on sustainability issues to employees to encourage behavioral change
-
- Select and track appropriate metrics to measure and communicate sustainability performance
 - Integrate sustainability reporting with financial reporting and investor relations activity, under the remit of the CFO
 - Quantify and communicate potential and actual revenue growth provided by sustainability opportunities
 - Incorporate sustainability analysis into risk management and portfolio appraisal
-
- Devise mechanisms to measure both positive and negative impacts on society and articulate value beyond traditional accounting concepts, e.g. P&L and the balance sheet
 - Actively build trust with customers and other stakeholders to make the case for the positive role of the banking sector in society, e.g. supporting development in emerging economies
 - Embed sustainability issues into the performance and remuneration packages of top executives
-
- Engage with governments to adopt collaborative approaches to shaping regulation—e.g., joint working groups
 - Develop industry standards that preempt formal regulation, including voluntary standards e.g. Equator Principles
 - Engage with wider stakeholders (e.g. NGOs) to develop collaborative approaches to development and local infrastructure

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 – and where sustainable development will be integral to business.

Whilst the banking industry may not historically have been the sector most preoccupied with the business impact of sustainability, there is a growing recognition amongst CEOs that, as Alfredo Saenz, CEO of Grupo Santander, told us, “This crisis has been the perfect storm for the industry.” The collapse in public trust is beginning to shape a new reality for banks, and growing opportunities, both in new markets and in financing the transition to a low-carbon economy, are creating new waves of growth for the industry.

Understanding this reality, and the opportunities for competitive advantage that it brings, will help the industry take important steps toward not only creating more sustainable economies and societies, but in building capabilities that ensure they can maintain their own high performance and competitiveness on the journey to a new era of sustainability.

The CEOs we spoke to described today's situation 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, but as Idar Kreutzer of Storebrand ASA told us, “The risk of inaction is the greatest risk facing business.”

A new era of sustainability is far from guaranteed and will require both leadership and urgency. The one critical imperative is the need to act—and act now.

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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.

About Accenture Sustainability Services

Accenture Sustainability Services helps organizations achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes. 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 corporate sustainability and climate change. Find out more at www.accenture.com/sustainability or contact us at sustainability@accenture.com.

About the Accenture Institute for High Performance

The Accenture Institute for High Performance creates strategic insights into key management issues and macroeconomic and political trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses.

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 215,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com.

