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**United Nations** Global Compact

UN Global Compact-Accenture CEO Study

# Towards a New Era of Sustainability in the Communications 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

## Gene Reznik 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 more than 50 business and civil society leaders—represents the largest such study of CEOs ever conducted on the topic of sustainability. The study included a sampling of more than two dozen major communications companies around the world, including Alcatel Lucent, BT, Ericsson, France Telecom, Nokia and SK Group.

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 that 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 communications 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.

Handwritten signatures of Gene Reznik and Peter Lacy in black ink.

# Executive Summary

## The sustainability landscape is changing

Since the last UN Global Compact study in 2007, we have witnessed a fundamental change in CEOs' views on sustainability. Business leaders worldwide now see sustainability as central to their business: 81 percent of the communications 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 sustainability strategy are featuring higher on the executive agenda. In our conversations with CEOs, we have seen how sustainability is increasingly perceived as a key element in companies' response to the key strategic challenges of their industries.

Leading CEOs within the communications sector are beginning to see sustainability as a significant top-line opportunity—and most companies appreciate the potential cost reduction benefits of more sustainable operations. As the industry is becoming ever more competitive, there is a growing emphasis on lean manufacturing and other

operational improvements supporting efficient production. However, these business moves are often more motivated by cost reduction than by a simple commitment to sustainability.

## 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.

Didier Lombard, Chairman of France Telecom, articulated the challenge and opportunity succinctly: "Sustainability is essential to building our brand and our trust with consumers." Among all CEOs surveyed, strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues, identified by 70 percent of communications 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—leading to a real concern that executives may underestimate the extent to which mistrust is affecting their business personally.

## The drivers and approaches to sustainability are changing

Communications CEOs identify education and climate change as the development issues most important for their business, a finding that echoes that of the general survey. Education, both of the population at large and within their own organisations, is seen as especially important: 89 percent of communications executives rated it among their top three most critical development issues, a number significantly higher than the global average of 72 percent.

Interestingly, communications CEOs are significantly ahead of the global average in their perception of sustainability as an opportunity for revenue growth and cost reduction—70 percent, compared to the survey average of 44 percent—cited “potential for revenue growth and cost reduction” as a critical motivating factor in influencing their action on sustainability.

## 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-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; smaller numbers of communications CEOs (63 percent) believed this to be true. Our analysis, however, suggests that even that level of confidence may not be fully justified, 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 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). Similar performance gaps were found to exist in the communications industry. Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains a somewhat distant goal.

## 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 (67 percent in the communications industry) feel that this tipping point is within a decade away, and 80 percent (89 percent in communications) believe it will occur within 15 years. This is actually a highly optimistic view that would have been unthinkable in 2007—a 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.





## 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.

Communications 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

81%

81% of communications CEOs believe that sustainability issues will be 'important' or 'very important' to the future success of their business.

81%

81% of communications CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

70%

70% of communications CEOs cite 'brand, trust and reputation' and 'potential for revenue growth and cost reduction' as among their top three factors driving them to take action on sustainability issues.



# 63%

63% of communications CEOs identify consumers as the most important stakeholder group that will impact the way they manage societal expectations.

# 85%

85% of communications CEOs see 'accurate valuation by investors' of sustainability as important to reaching a tipping point in sustainability.

# 41%

41% of communications CEOs cite complexity of implementation across functions as the most significant barrier to embedding sustainability.

# 89%

89% of communications CEOs see education as the global development issue most critical to address for the future success of their business.

# 81%

81% of communications CEOs believe that companies should integrate sustainability through their supply chain; only 48% believe that their company has done so.

# 81%

81% of communications 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. In short, they are beginning to permeate business from corporate strategy to every element of operations.

As the environmental footprint of the communications sector is significantly lower than some other industries, companies may have been slower to grapple with sustainability issues. In our survey of 766 CEOs across 25 industries, just 81 percent of communications CEOs – the lowest of any industry, and significant lower than the 93 percent of CEOs globally – believed that sustainability would be an important factor in securing the future success of their business, and just 22 percent – compared to 54 percent globally – believe that these issues will be 'very important'.

However, one of the clearest insights arising from our conversations with CEOs in the communications sector is that the perception of sustainability, at least among certain companies, is changing. For leading companies, sustainability is no longer purely a question of mitigation and environmental impact, viewed principally through the lens of marketing or risk management, but is increasingly seen as an integral part of core business activities – growing revenues, cutting costs and building brands – and a vital element in addressing the key strategic challenges faced by the industry.

### Addressing declining growth and profitability in mature markets

The communications sector is faced with declining revenues in traditional segments, as voice services become commoditised. Many providers have seen almost half of their traditional wireline voice customers switch to VoIP and/or wireless, and because voice remains the largest revenue stream for incumbents and an even larger portion of their profits, there is an imperative to seek immediate and aggressive cost reductions. In the short term, communications companies are looking to reduce operating costs, often through energy efficiency initiatives focussed on data centres and their wider real estate portfolios.

Growth in mobile data is seen by many companies as a key factor in stabilising ARPUs in mature markets, but recent figures suggest that this growth may fail to offset the decline in voice revenues. Over the last three years, mobile ARPU in Europe has fallen by 20 percent, driven primarily by the decline in the average per-minute price for voice calls from €0.16 to €0.14 over the period, with mobile data still accounting for less than 15 percent of total ARPU.<sup>1</sup> Whilst further growth is predicted, both through the proliferation of smart mobile devices in mature markets, and new connection in emerging economies – India is estimated to account for 400 million 3G connections by 2015 – companies are seeking new ways of boosting wireless revenues.

Longer-term, companies are aware that new sources of revenue, in new markets and through new products and services, must be found to compensate for the decline in their traditional revenue base.

## Securing new waves of growth

One of the principal drivers in the growth of wireless services is the ability of mobile connections to facilitate companies' drive to cut costs and improve environmental performance through reducing energy use. As business-to-business customers look for the communications infrastructure to support new technologies and new, more profitable

services, communications companies will be granted new opportunities in machine-to-machine (M2M) connections, connecting one piece of equipment wirelessly with another.

Numerous opportunities exist for wireless telecoms to reduce carbon emissions and energy costs, including mobile telepresence, virtual offices and smart grids, meters and network monitoring. Research by Vodafone and Accenture shows that in 2020, these new wireless opportunities, supported by mobile services, could save 2.4 percent of expected EU emissions – 113 million tonnes of CO<sub>2</sub>e, equivalent to saving 18 percent of UK emissions in 2008. This could save €43 billion in energy costs alone and would require a billion mobile connections, 87 percent of which are M2M.

## Managing the regulatory landscape

Government intervention in the regulatory landscape, looking to drive social development around communications technology, has raised the importance of companies' relationships with public authorities as they seek to shape future regulation and ensure a level playing field for international competition. As nationalised broadband targets, network stimulus packages and 3G/4G spectrum auctions drive government intervention in the market, communications companies can seize opportunities to take advantage of enhanced government focus on connectivity.

Whilst communications companies have historically worked in a highly regulated environment, a new wave government-sponsored growth will require greater and more proactive engagement to shape the development of public-private partnerships.

### Building deeper customer relationships

One of the biggest challenges traditional communications face is positioning themselves such that their services and capabilities do not become a commodity, driving down margins to the point at which the viability of a business can be threatened. New ways of engaging customers, understanding their needs and providing them with compelling services and content will be essential. Environmental concerns are one area where communications companies can forge a longer-term, deeper relationship through building trust with customers and end consumers.

### Shaping new business models

As strong growth in mobile penetration continues, the issue of how to dispose of mobile devices safely at the end of their lifespan becomes increasingly problematic. Cell phones and other mobile devices contain many valuable and potentially harmful materials, including cadmium and lead. Whilst the WEEE directive has regulated the responsibilities of companies in regard to the end-of-life disposal of electrical and electronic devices, leading companies are seeking to go beyond the requirements of European legislation to develop new 'take back' models that could close the loop of production and consumption, moving the industry towards a system of material pooling, better engaging consumers and reducing the environmental impact of the industry.

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 will be critical to future success.

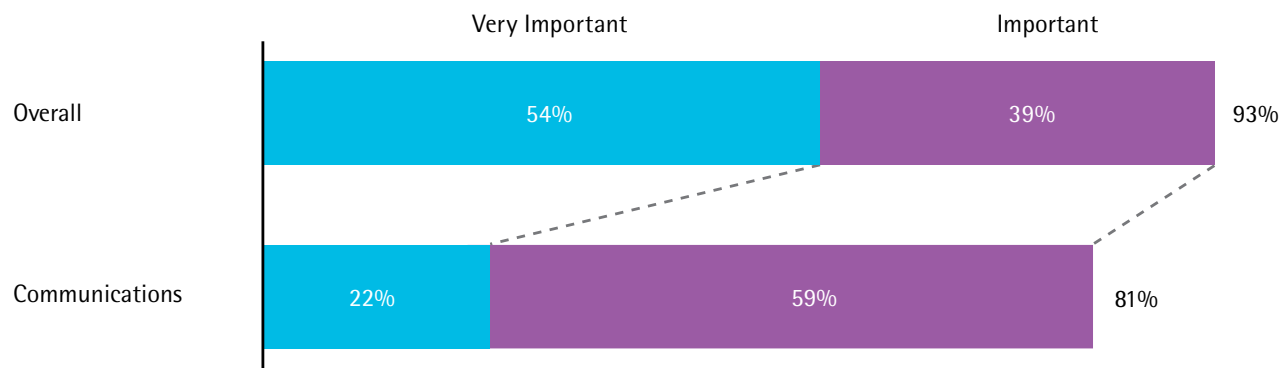




# Part Two

## Sustainability and Communications: State of the Industry

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)

### Communications executives' belief in the importance of sustainability is strong, but may lag behind other industries

CEOs' belief in the importance of sustainability appears strong within the communications industry. Eighty-one percent of the executives surveyed affirmed the importance of sustainability to the future success of their business. That number is lower, however, than the global, cross-industry number of 93 percent, and represents the lowest figure of any industry surveyed. This relatively low figure, in comparison to other sectors, may reflect executives' understanding of sustainability as an issue primarily concerned with the direct environmental impact of their industry – an impact that is less prominent in the communications sector compared to the energy and utilities sector, for example. That just 22 percent of CEOs in the sector believe sustainability to be 'very important' to their future success – compared to 68 percent in energy and utilities, for example – suggests that sustainability may not yet be seen as a strategic priority for communications companies.

Our conversations with CEOs, however, and other survey data suggest that sustainability is rising in importance in the communications industry. For example, the global economic downturn might have been expected to weaken the commitment to sustainability issues, but in fact appears

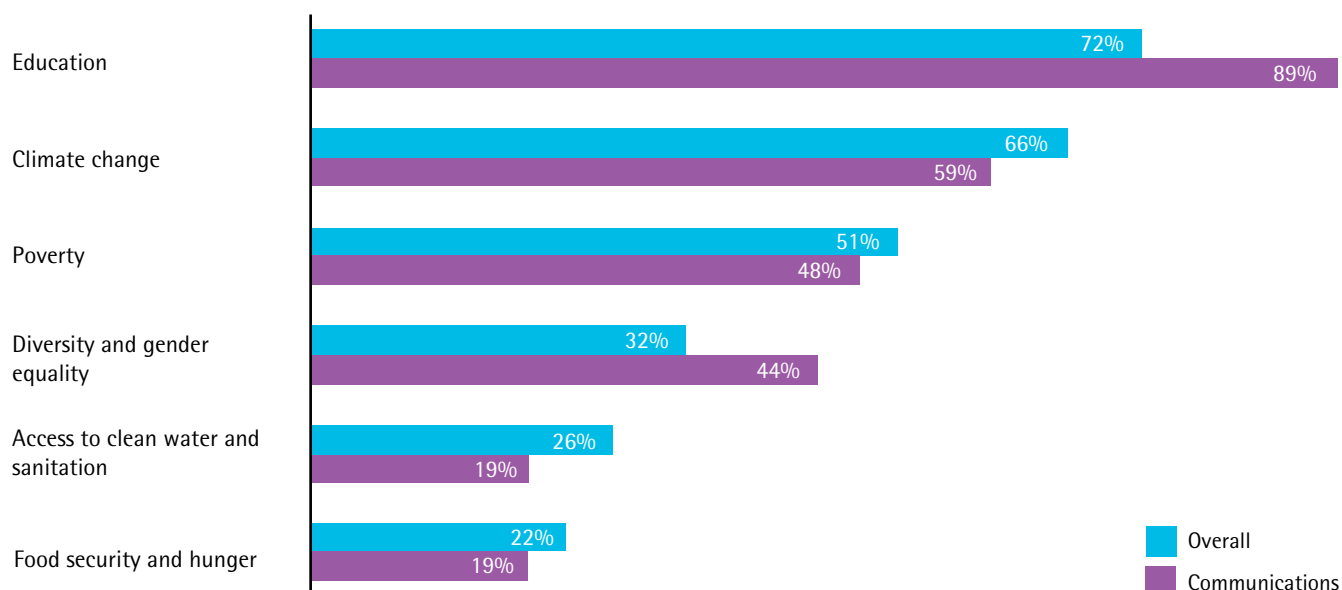
to have done the opposite. 81 percent of communications CEOs believe that the economic downturn has raised the importance of sustainability as an issue for top management, and just 1 percent of communications CEOs report that their company has reduced investment in sustainability as a result of the downturn. Fully four-fifths of communications executives affirm that the downturn has led their company to take a longer-term view of business and the role of sustainability.

### The breadth of sustainability issues is growing

It is clear from our conversations with CEOs that their understanding of sustainability issues is broadening as they see ever greater links between environmental, social and governance issues and the fundamentals of 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 communications, CEOs join their peers from other industries in affirming climate change and education as the two most important development issues for their business. The importance of these issues demonstrates some of the emerging linkages between sustainability issues and success in the industry: climate change will be critical, not only for the impact that carbon emissions regulation could have on an industry where energy costs represent a large proportion

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)

of the cost base, but also for the opportunities that leading companies see in enabling their business-to-business customers to reduce their own environmental impacts.

Equally, the development of education will play an important role in driving success for communications companies, both through the growth in talent pools – especially in the emerging markets – and through the development of new capabilities amongst their workforce. In a challenging business environment, communications companies will rely on the talent of their people to develop new and innovative solutions to drive future growth.

## 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 70 percent of communications CEOs as one of their top three factors. 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

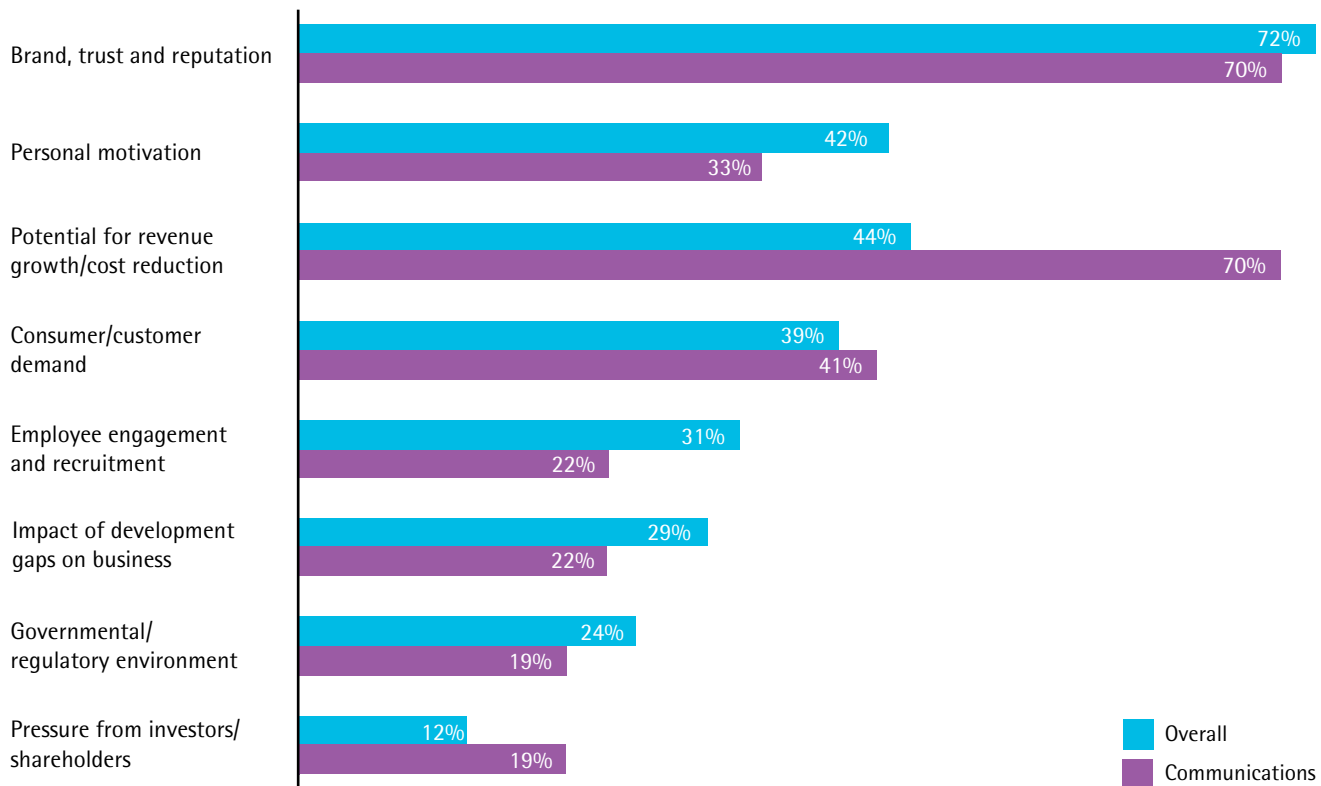
decisions of consumers and enterprise customers alike. As one leading European executive told us, "the sustainable behavior of companies is becoming more and more important: the public and the media are becoming much more sensitive to these issues."

It is instructive that 70% of communications CEOs see potential for revenue growth and cost reduction as a primary factor in taking action on sustainability – the highest of any industry. In a sector where many executives are sceptical of the business case for sustainability, this can be interpreted as a signal that leading companies are beginning to construct strong links between their sustainability activities and the fundamentals of business performance.

It is apparent from our conversations that further progress on sustainability will depend on companies constructing an evidence-based view of the return on investment that sustainability activities can bring. Currently, many companies have already seen a compelling return on investment on their energy efficiency activities: Deutsche Telekom, for example, has realised savings of €50 million (US\$59.6 million) per annum over the last ten years through increased energy efficiency and other overhead reduction measures.

Beyond efficiency savings, leaders in the sector are beginning to see great potential for new waves of growth driven by products and services which help their customers to address their own environmental impact and enable new solutions to sustainability challenges. In the words of Ben

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)

Verwaayen, CEO of Alcatel-Lucent, "With today's technology and know-how, we have the potential to affect climate change positively in ways that could not have been imagined a few years ago. This impact will be truly transformational."

It is, in part, the ways in which a focus on sustainability can inspire companies and their people to think more creatively—driving new-product innovation—that constitutes much of the top-line growth opportunity and the business case for sustainability: designing mobile and other high-tech devices with reduced environmental impact, for example, or developing services that help consumers and enterprise customers to reduce their own footprint, may prompt new waves of innovation. These can create competitive advantage for companies with products and services differentiated on the basis of environmental performance and impact. This may present challenges in quantifying the ROI that companies can realise from their investments in innovation – as Hirokazu Hashimoto, President and Director of the Anritsu Corporation, told us, "It's fairly easy to quantify the effects of our cost-saving measures on sustainability; what's still very difficult is estimating the numeric effects of our investments in new product development," – but leading companies are acutely aware that investment is required to position themselves for new demand and new waves of growth.

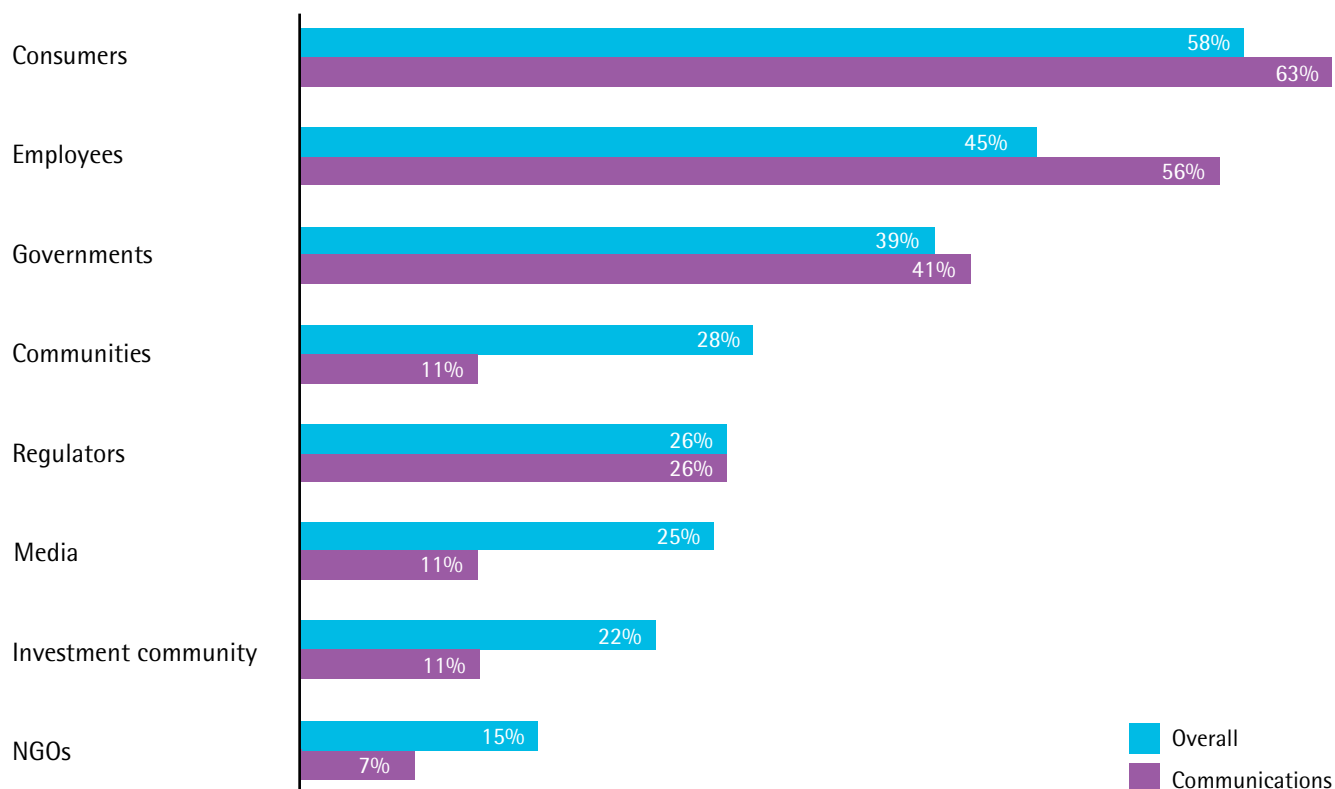
In driving demand through sustainability-focused innovation, consumers and business-to-business customers will be a key constituency for communications firms; 63 percent of industry CEOs named consumers as one of their most important

stakeholders in shaping their action on sustainability. Furthermore, consumer demand is among the top-three motivating factors in the industry, cited by 41 percent of communications executives. In the words of Gerard Kleisterlee, CEO of Philips, "Our angle on sustainability is in what our products can do for our customers in addressing sustainability objectives." And in the words of another executive, "the great thing is that we can help our customers achieve their targets; our product portfolio demonstrates that we're not just using sustainability for marketing purposes."

As they look to the upturn and new waves of growth, many companies perceive a challenge in rebuilding trust with stakeholders, and in making the case for business in society: in the communications industry, where a large portion of the business depends on a positive connection with consumers in the promotion of services and devices, this challenge is all the more pressing. As communications companies 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 a more holistic approach to sustainability are visible in the other factors that leading companies cite as motivators in taking action. Communications executives are especially interested in how sustainable operations and strategies can improve revenues and help reduce costs. Seventy percent of these CEOs—compared to just 44 percent across the survey average—cite the potential for revenue growth and cost reduction as an important motivator in taking

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)

action on sustainability, suggesting that CEOs in the sector may be 'ahead of the game' in realising the true business value of sustainability performance.

It is clear from our conversations with communications executives that they see the opportunity down the road to drive business value and differentiated customer relationships from sustainability. As Hans Vestberg, CEO of LM Ericsson, put it, "We see strategic business opportunities in being a sustainability leader. Today, with global challenges like climate change and poverty affecting basically all businesses, it is better to be proactive and in the forefront, rather than reactive and lagging."

## 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.

A high proportion of communications executives believe in this integrated approach, whereby sustainability is helping to fuel the essential engine of business. As one leading executive puts it, "We have gone from [sustainability as] philanthropy

and promoting a feel-good factor to sustainability as a series of dialogues and engagements directly linked to our core business."

This kind of vision and commitment shows up in the survey numbers, as well. Eighty-one percent of communications executives believe, for example, that sustainability issues and approaches should be embedded in the strategy and operations of the company, as well as into the global supply chain; 78 percent also say these issues should be embedded in the strategy and operations of subsidiaries.

Seventy-eight percent also supported metrics embedded in business processes to track performance against sustainability objectives; 70 percent believed in using sustainability goals as a measure of employee performance. Clearly, communications executives take this matter seriously, and understand that sustainability goals must be backed up with different approaches to operations and performance management.

As this overview of the current state of the industry has shown, the mindsets of communications CEOs are converging on a common understanding of the importance of sustainability. 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—could be reached within a decade. Given where companies have been on these issues in recent years, this amounts to an optimistic endorsement of the future of sustainability—though with a chastening recognition that many challenges lie ahead.

Put simply, 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 communications 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.

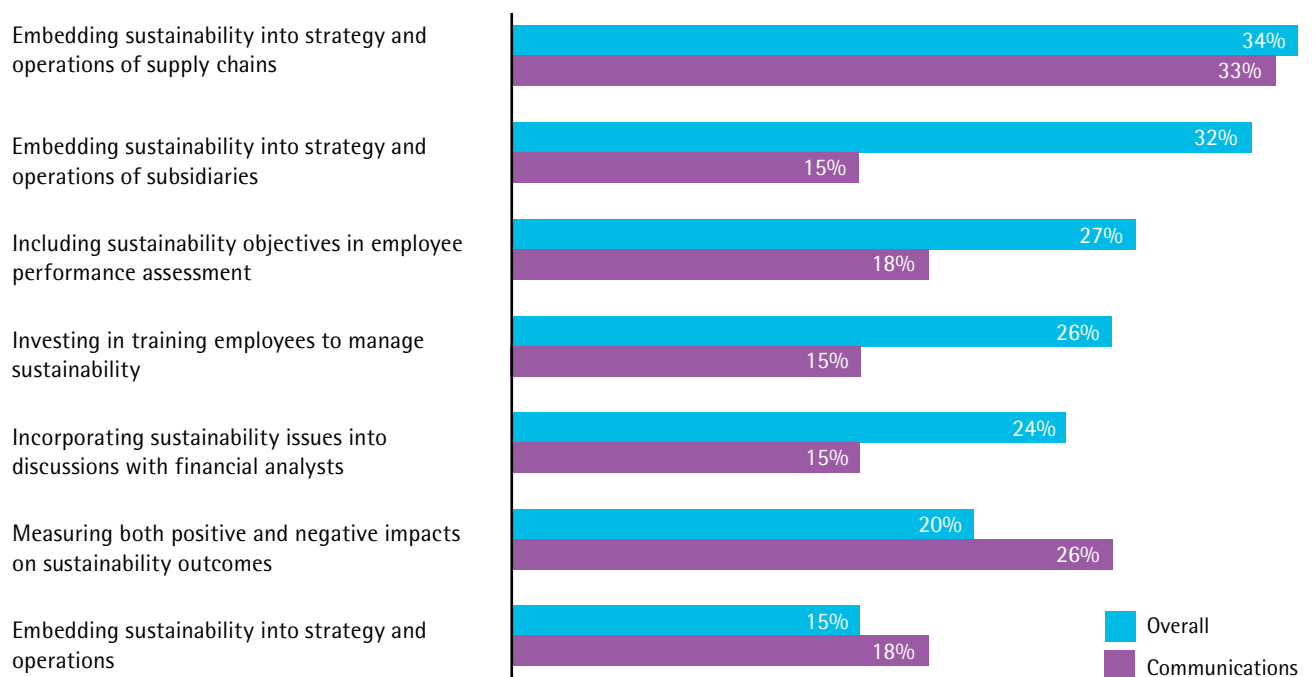
For example, while 81 percent of communications executives say that sustainability issues should be integrated into strategy and operations, only 63 percent say such integration exists in their company, a performance gap of 18 percent—and our conversations with CEOs on the challenges of integration suggest that even this may be interpreted as an over-optimistic assessment of their own performance.

Digging deeper into the specifics of execution when it comes to integrated sustainability, additional gaps are apparent: for example, 78 percent say sustainability should be integrated into a company's subsidiaries, but only 63 percent have achieved such integration. Similarly, 81 percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, but only 48 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.

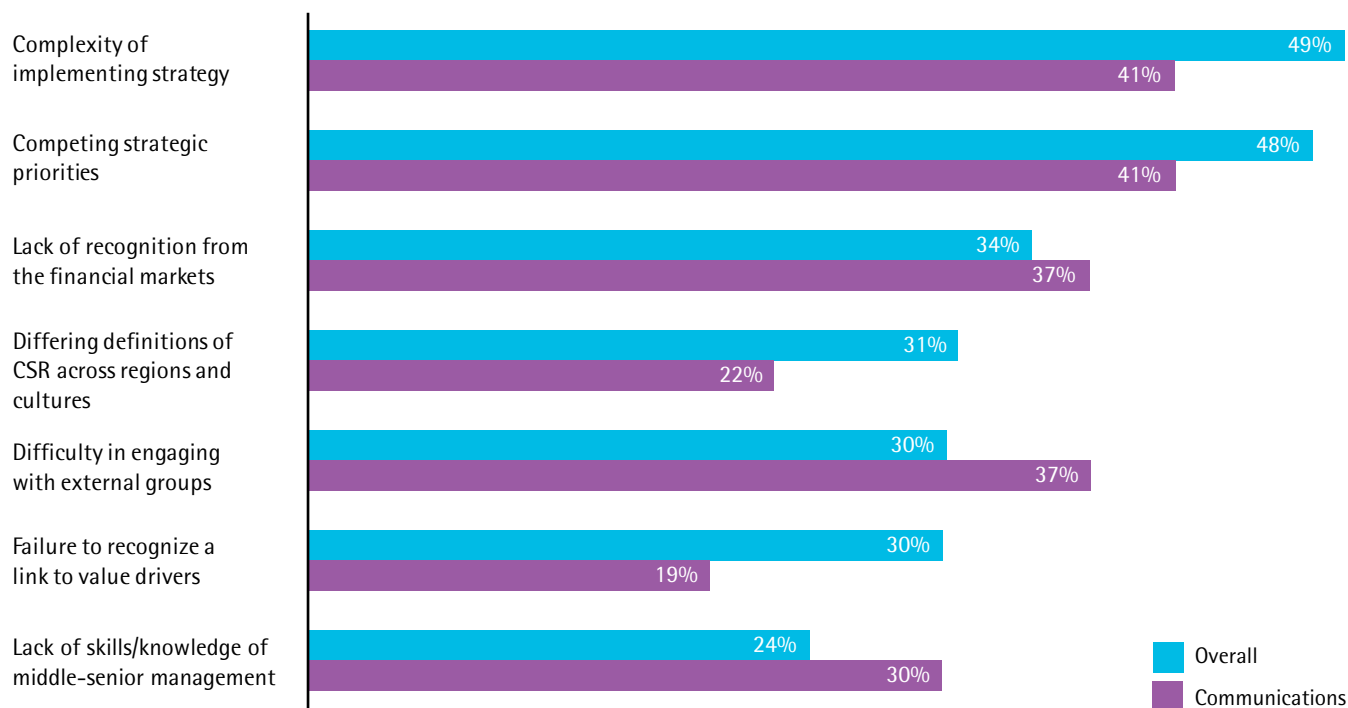


Figure 3.1: Performance Gaps between 'companies should' and 'my company does' (Selected performance gaps)



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: in the words of one emerging-market CEO, "Currently, the burning issue is how to better incorporate sustainability into daily practice." Foremost among the challenges are the need to balance and prioritize multiple objectives and initiatives, and to manage complexity across business functions.

### Managing complexity

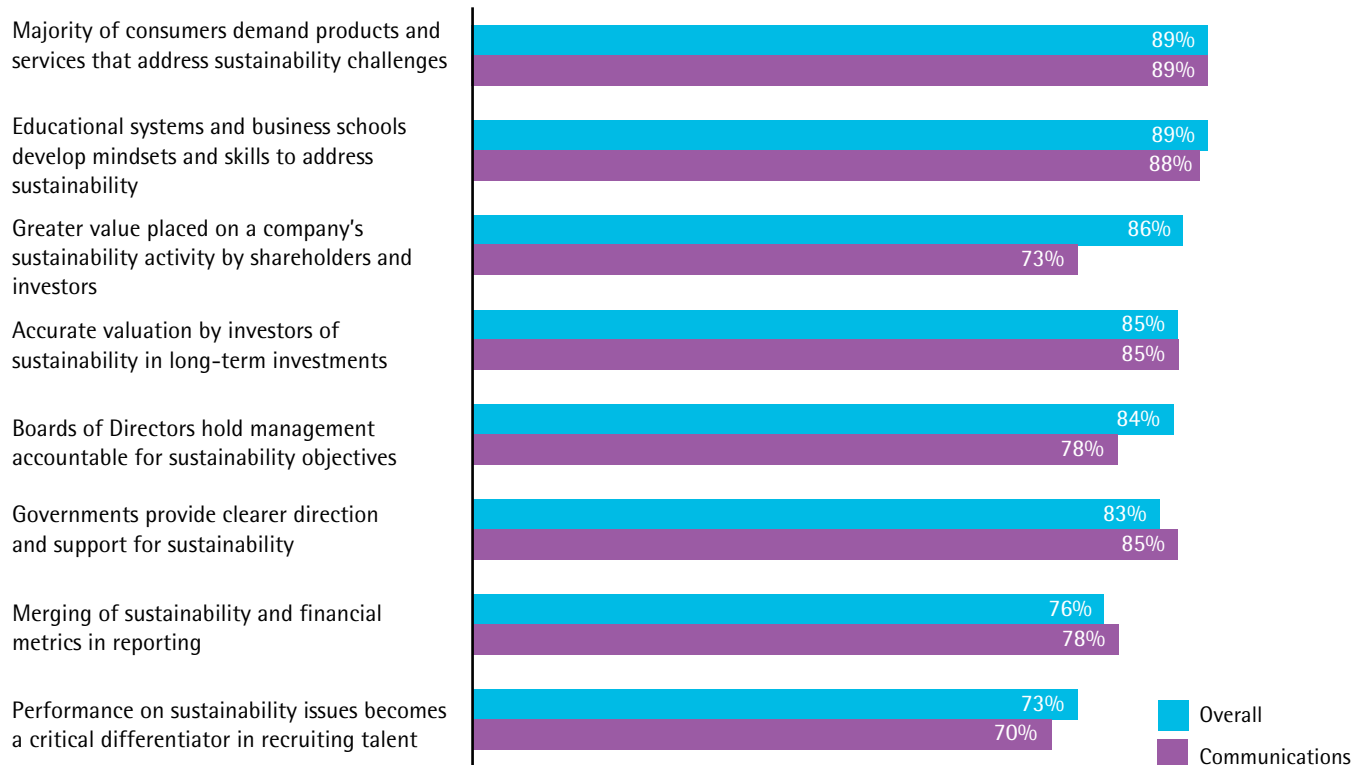
CEOs report that the most significant barrier to an integrated, company-wide approach to sustainability is the complexity that accompanies implementation across different functions. Forty-one percent of communications executives say such integration is their primary obstacle. Growing concerns about complexity 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 and increasingly complex supply chains, as well as through their subsidiaries.

## Competing strategic priorities

Forty-one percent of communications CEOs also report that balancing competing strategic priorities is currently a significant barrier to implementation of sustainability issues, highlighting 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 one business leader 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."

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 one leading executive. "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. “The industry always tends to overestimate short-term impacts and underestimate the long term impact of new technologies,” according to Rene Obermann, CEO of Deutsche Telekom. This means, then, that there is potential competitive advantage to companies 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. Sixty-seven percent of communications CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 52 percent report that their company already does so.

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 behaviours. Here, too, our survey data shows a gap between ambition and reality: although 70 percent of communications CEOs believe that such metrics should be included, just 52 percent report that they are currently taken into account at their own company.

## 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. 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—63 percent of CEOs consider consumers 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 behaviours and desires.

Our research finds mixed responses about this question. Many CEOs we spoke with expressed scepticism 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 environmental values of the younger generation would last, or whether they would come to be seen as a passing trend. As one 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."

Across the board, CEOs are uncertain how to interpret consumer demand for sustainable products; consumer survey data appears to conflict with purchasing signals. CEOs seemed largely to agree with another business leader with whom we spoke, who said, "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 stand-off, whereby scepticism about the extent to which sustainability influences consumer behaviours 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: 89 percent of communications 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 11 percent of communications CEOs identify the investor community as one of their most influential stakeholders over the next three years—lower even than the survey average of 22 percent.

As one European business leader told us, “The real pressure [to act on sustainability] would be 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 towards companies around the world integrating sustainability into core business.

### Achieving more regulatory certainty

As environmental regulations change and expand around the world, communications companies will need to improve their ability to navigate the maze and engage with regulators proactively. In the United States, for example, as government entities work to reduce carbon emissions and electronic waste, companies must comply with such laws as Extended Producer Responsibility (EPR) product take-back regulations, rules governing restricted substances in their products, and even the safe shipment of goods across borders.

Eighty-one percent of communications executives believe that governments and policy makers will increase their interventions in driving sustainability. CEOs are leery of this situation. Asked if they would welcome increased government intervention to help drive sustainability goals, only 44 percent of the CEOs said they would—below the survey average of 60 percent.

From our conversations with CEOs, it is apparent that there is both a belief in the importance of sustainability to future business success, and a determination to integrate sustainability objectives into core business. CEOs’ belief in the centrality of sustainability means that their companies are beginning to take real, innovative action 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. The innovations of sustainability pioneers in the utilities industry show companies meeting the key challenges of the industry through explicit programs aimed at embedding sustainability into every aspect of business. 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.

### Cost reduction through energy-efficient operations

Many leading communications companies are focusing their efforts on cost reduction through energy efficiency. From reducing the energy consumption of buildings to cooling data centres more efficiently, companies are aiming for efficiencies that serve environmental metrics and their cost base. Nokia, for example, has recently built a state-of-the-art, environmentally-friendly campus in Beijing which has delivered 37 percent reduction in water use and 20 percent overall savings in energy consumption. Seventy-eight percent

of construction waste was diverted from landfill, 12 percent of materials used were made of recycled raw materials and 27 percent were regionally sourced. Seventy-seven percent of its lighting uses natural light.

In an industry with large and complex supply chains, CEOs identify a significant performance gap between ambition and execution in embedding their approach to sustainability throughout their network of suppliers. Nokia has taken a series of strategic and operational steps to improve its environmental performance throughout the supply chain. The company has a set of global Nokia supplier requirements, including environmental and ethical considerations, which apply to both direct and indirect suppliers. To be a supplier, companies must fulfil these requirements. For example, they must have an environmental management system in line with ISO14001 (the international voluntary standard for environmental management systems). They must also know and record the raw materials used within their products, manage their supply chains and demonstrate continuous improvement.

Achieving cost reduction through efficiency gains and intelligent use of sourcing strategies can also fund innovation to bring new products to market faster. This drive is seen particularly amongst companies in the emerging markets, where efficiency promotes their licence to

innovate and grow. As demand for communication networks continues to increase, the need for data center and servers will only grow, demanding a huge amount of energy and providing a real imperative to improving efficiency. The pioneers of the communications industry are focusing their efforts on achieving this greater efficiency, not only to reduce their own costs but also to reduce their consumers' and customers' costs and environmental footprint. As leading companies make further progress in realising and demonstrating the ROI potential of those activities focussed on achieving both sustainability and cost reduction objectives, sustainability may rise further up the corporate agenda: 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."

## Innovation and new technologies

Communications companies understand the key role that they can play in the transition to a low carbon economy: new technologies can make a significant contribution to the challenge of reducing greenhouse gas emissions. As Rene Obermann, CEO of Deutsche Telekom, notes, "Global warming is one of the major challenges of our time. Here, information and communications technologies can make a difference—for example, by significantly reducing CO2 emissions."

As more and more devices are connected through broadband networks, many companies are innovating new technologies and services to benefit from and facilitate this transition. Demand for new technologies is growing with the proliferation of smart grids, cars and cities, all of which requires an enhanced 'intelligent' infrastructure of communications technologies.

Leading companies such as Deutsche Telekom are tapping into this new demand and developing smart technologies and services that provide many environmental and social benefits to urban life. 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.<sup>2</sup>

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 smartgrid 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.<sup>3</sup>

Innovative companies are also looking to the potential of cloud computing to differentiate themselves in the market and provide new value-added services to their business-to-business customers. When provided as a service, cloud computing lets organisations bypass the expense and both of buying, installing, operating, maintaining and upgrading the networks and computers found in data centers. Through combining extraordinary power with flexibility, cloud computing allows greater efficiency, both financially at an enterprise level and in terms of global carbon emissions.

## Partnerships and collaboration

Leading industry players are collaborating to spur innovation in the sector, especially around making communication networks more energy-efficient. For example, Alcatel-Lucent, together with Bell Labs and a consortium of leading

industry and academic experts, have formed 'Green Touch', a dedicated response to pioneering innovations in eco-sustainability technology to achieve dramatic reductions in the energy consumption of ICT networks.

Collaboration will also be critical in managing companies' relationships with government, particularly in responding to governments' ambitions to drive social development through the expansion of communications technologies. Companies are looking to shape future regulation and ensure a level playing field for international competition—and also to benefit from governments plans for broadband and communication services roll out.

To this end, leading companies are pursuing innovative partnerships with new players such as NGOs. 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 its future success. The program has so far invested £1.5 million globally with the goal of bringing education, technology and communication skills to children from disadvantaged backgrounds in three growth markets for BT: Brazil, China and South Africa.<sup>4</sup>



## Product consumption and end-of-life disposal & recycling

Involving consumers more directly in the lifecycle of a company's products is a way to encourage deeper customer relationships, while also broadening the impact of environmental initiatives.

Major handset and electronics manufacturer Nokia, for example, has initiated a "Take Back" campaign aimed at going beyond the requirements of the Waste Electrical and Electronic Equipment (WEEE) Directive to engage its customers in a long-term, "closed loop" cycle of product ownership, thereby increasing loyalty and customer retention. Since 2001 the campaign has been incentivising customers to return and recycle old phones. Customers are encouraged to dispose of their old or used mobile phones, batteries and accessories in a safe and environmentally friendly way at designated recycling bins in Nokia Care Centers around the world. Nokia offers the free take-back service at their centers in 85 countries, with almost 5,000 service points.<sup>5</sup>

The program is a demonstration that environmental and business principles can co-exist. The program has resulted in a substantial increase in recycled materials in the EU, with 17,000 tons per annum, and offer significant potential for further advances in China (currently 130 tons/year) and the US (80 tons). At the same time, because mobile handsets contain many different valuable materials (e.g. copper, iron and aluminium) these can be recovered and turned into a new revenue stream. Enhanced brand reputation has also been an outcome of the program: in 2009, Nokia won the "Green Company of the Year" award in India, a marketplace critical to the company's continued growth.<sup>6</sup>

## 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 communications companies 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

Example business actions:

- Develop deeper customer relationships through measuring and communicating sustainability impact of products and ‘value add’ services
- Improve provision of customer and end user information and education, particularly through meaningful and accessible metrics re sustainability impacts
- Identify and quantify opportunities for new products and services created by sustainability, e.g. communications infrastructure for new technologies

Eighty-nine percent of communications 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. And there are now some indications that consumers are open to a sustainability agenda. According to a report by ABI research, almost half of North American mobile consumers are likely to be influenced by suppliers’ green credentials when buying telecom services or devices.<sup>7</sup>



Some research suggests that consumers are even willing to pay a premium for green products. Approximately 10 percent of German consumers and 12 percent of U.S. consumers are willing to pay 10 percent more for green products that require less energy to operate or are manufactured by companies with a green reputation.<sup>8</sup>

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.

For example, the consumer electronics industry maintains a website, [www.myGreenElectronics.org](http://www.myGreenElectronics.org), which offers a wide variety of information on energy efficiency, recycling and more environmentally conscious purchasing.

## 2. Generate new skills and mindsets within the company to drive sustainable 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 to encourage behavioural change

Eighty-eight percent of communications 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, communications 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 communications companies 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. A growing number of universities, for example, are now offering courses or programs in renewable energy.<sup>9</sup>

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: 67 percent of communications CEOs believe that companies should invest in enhanced training of managers to integrate sustainability into strategy and operations—but only 52 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

- 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



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-five percent of CEOs 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 48 percent of communications CEOs report that they currently incorporate sustainability issues into discussions with financial analysts.

Valuing long-term activities is also simply difficult to do. As Hirokazu Hashimoto, President of Anritsu Corporation, puts it: “It’s fairly easy to quantify the effects of our cost-saving measures on sustainability; what’s still very difficult is estimating the numeric effects of our investments in new product development.”

One leading executive with whom we spoke advocates a broader approach: “There are two things that need to happen to move from philanthropy to [embedded sustainability]. 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.”

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

- 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
- Embed sustainability issues into the performance and remuneration packages of top executives

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 89 percent of CEOs believe that companies should measure both the negative and positive impacts of their activities on sustainability outcomes, only 63 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 water 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

- Engage with governments to adopt collaborative approaches to shaping regulation—e.g., joint working groups, co-location of staff
- Develop industry standards that pre-empt formal regulation
- Explore new business models to deliver environmental and efficiency gains beyond formal regulation (e.g. WEEE directive and 'take back' initiatives)

To avoid the unintended consequences of unhelpful regulation, build trust and provide a more informed basis for policymaking, businesses should adopt a more proactive and collaborative approach with governments.

Simply keeping track of regulation is a task in itself, and one tool sponsored by the Telecommunications Industry Association (TIA)—EIATRACK—helps do that. The online tool maintains current information and resources to help track the extensive scope of regulations and legislations geared to the information and communications technology (ICT), consumer electronics (CE), and medical device industries.<sup>10</sup>

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 favourable 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 communications companies, based on CEO interviews

- Develop deeper customer relationships through measuring and communicating sustainability impact of products and 'value add' services
  - Improve provision of customer and end user information and education, particularly through meaningful and accessible metrics re sustainability impacts
  - Identify and quantify opportunities for new products and services created by sustainability, e.g. communications infrastructure for new technologies
- 
- 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 to encourage behavioural 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
- 
- 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
  - 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, co-location of staff
  - Develop industry standards that pre-empt formal regulation
  - Explore new business models to deliver environmental and efficiency gains beyond formal regulation (e.g. WEEE directive and 'take back' initiatives)

# 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. CEOs believe that this is a future where the role of business is integral to development – and where promoting and facilitating sustainable development will be integral to business.

In the communications sector, sustainability is becoming a core strategic priority for executives seeking to secure the future success of their companies. Leading companies are realising significant cost savings through energy efficiency initiatives, and begin to capture new revenue streams through enabling their customers to address their own sustainability challenges.

The transition to a low-carbon economy will place great demands on the innovation and capabilities of the communications sector, but the opportunities are immense. Leading companies are already beginning to position themselves to take advantage of new waves of growth, and those who act quickly have the potential to realise a significant competitive advantage. In the words of Didier Lombard, Chairman of France Telecom, "Successful companies will align their core business with the opportunities presented by sustainability."

Our research, however, suggests that CEOs in the industry may not yet fully appreciate the scale of the opportunity, or the scale of the transformation – in mindsets and

approaches, capabilities and skills – that will be required to embed the industry at the heart of the transition to a more sustainable economy. Foremost amongst the challenges will be creating a compelling business case for investment in sustainability, from cost savings through efficiency initiatives to new revenue streams opened through innovation.

The CEOs we spoke to described today's situation as 'the end of the beginning' rather than 'the beginning of the end' in the transition towards a more sustainable economy, and in shaping the role of the communications sector in enabling that transition. More will be required in measuring and tracking performance; forging links between sustainability and core business metrics; shaping the attitudes and preferences of customers and consumers; building the capabilities of a new generation of leaders; and leading a new conversation on the role of business in society.

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. 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](http://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](http://www.accenture.com/sustainability) or contact us at [sustainability@accenture.com](mailto: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](http://www.accenture.com).

