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**United Nations** Global Compact

UN Global Compact-Accenture CEO Study

# A New Era of Sustainability in Consumer Goods

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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

## Keith Barringer 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, a figure that reaches 98 percent among CEOs in the consumer goods industry, and fully 100 percent amongst CEOs of large multinationals in the sector.

This is one of the most 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 over 50 business and civil society leaders—represents the largest such study of CEOs ever conducted on the topic of sustainability. The study included a wide sampling of major consumer goods companies around the world—107 CEOs from 46 countries—including companies such as Unilever, Nestlé, Diageo, Heineken, Timberland and Natura.

Whilst the survey of these leading companies cannot claim to be representative of the wider business community, we believe that the insights from those companies committed to integrating environmental, social and governance issues into core business bring a unique perspective, not only on the opportunities provided by sustainability, but also on the scale of the challenge ahead. With this in mind, we have aimed throughout not to advance our own point of view – even where we were ourselves surprised by results – but, wherever possible, to report the 'raw' data, opinions and case studies from the survey and from interviews with CEOs.

It is clear from these conversations 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, but that 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. Whilst many leading companies believe that sustainability issues are already integrated into their strategic thinking, they perceive a greater challenge in embedding these issues into their day-to-day operations, especially through supply chains and subsidiaries.



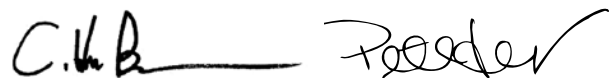
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Beyond their individual companies, too, CEOs believe that much will be required to shape a landscape conducive to more sustainable business. In the consumer goods industry, it is readily apparent that uncertainties regarding consumer demand, investor 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 is this more keenly felt than in the consumer goods 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.



# CEO opinion: by the numbers

107 CEOs in the  
Consumer Goods  
industry, from  
46 countries

## 98%

98% of consumer goods CEOs believe that sustainability issues will be critical to the future success of their business.

## 97%

97% of consumer goods CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

## 79%

79% of consumer goods CEOs cite 'brand, trust and reputation' as one of the top three factors driving them to take action on sustainability issues.

# 79%

79% of consumer goods CEOs identify consumers as the most important stakeholder group that will impact the way they manage societal expectations.

# 75%

75% of consumer goods CEOs see 'accurate valuation by investors' of sustainability as important to reaching a tipping point in sustainability.

# 51%

51% of consumer goods CEOs cite complexity of implementation across functions as the most significant barrier to embedding sustainability.

# 64%

64% of consumer goods CEOs see education as the global development issue most critical to address for the future success of their business.

# 92%

92% of consumer goods CEOs believe that companies should integrate sustainability through their supply chain; only 59% believe that their company has.

# 94%

94% of consumer goods CEOs report that their company will employ new technologies to address sustainability issues over the next five years.



# 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 in the consumer goods industry, now see sustainability as central to their business: 93 percent of CEOs, and 98 percent of those in consumer goods, believe that sustainability issues will be important to the future success of their business.

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. In our conversations with CEOs, we have seen how sustainability is increasingly seen as a key element in leading companies' responses to core strategic challenges: in the consumer goods industry, it is almost impossible to discuss the growth in emerging markets, innovation, changing consumer behaviours or supply chain pressures without reference to sustainability. As a result, these issues are no longer viewed principally through the lens of risk management, but as a critical part in securing a licence to operate, innovate and grow.

## After the storm: Rebuilding trust

Demonstrating a visible and authentic commitment to sustainability is especially important to CEOs because it is part of an urgent need to regain and build trust from the public and other key stakeholders, such as consumers and governments—trust that was shaken by the recent global financial crisis. Strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues, identified by 72 percent of CEOs, and 79 percent of those in consumer goods. However, CEOs often assume that their own company is more respected and trusted than their industry in general—leading to a real concern that executives may underestimate the extent to which mistrust in business continues to be an issue in the public mind.

## The drivers and approaches to sustainability are changing

For consumer goods CEOs, particularly those at the head of large multinationals, education, access to water, and food security and hunger, are among the issues perceived as most important to their future success. These specific concerns reflect the increasing alignment of development issues with core business, and the importance of dealing effectively with sustainability. In discussing their motivations for taking action on sustainability, consumer goods CEOs see consumer demand as a critical factor, suggesting that leading companies see sustainability issues playing a larger role in shaping consumer perceptions, influencing purchasing decisions and creating a competitive advantage in the marketplace.

## 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 that *execution* is now the real challenge to bringing about the new era of sustainability. Confidence among business leaders about their progress toward this new era is strong, and their companies are taking concrete steps toward embedded sustainability. Eighty-one percent of CEOs—compared to just 50 percent in 2007—stated that sustainability issues are now fully embedded into the strategy and operations of their company, although our conversations suggest that this may be interpreted as overconfidence, or a lack of understanding of what full integration really entails.

While sustainability has clearly become part and parcel of how many businesses operate, it has yet to permeate all elements of core business—that is, into capabilities, processes and systems. In particular, the difficulty of implementation, especially across supply chains and subsidiaries, is seen by CEOs as the top barrier to the full integration of sustainability. Our research finds a significant performance gap between those CEOs who agree that sustainability should be embedded throughout their subsidiaries (91 percent) and supply chain (88 percent),

and those who report their company is already doing so (59 percent and 54 percent, respectively). Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains some way off.

## Ensuring the right external conditions

How long will it take before the majority of companies worldwide reach this new era in which sustainability is fully integrated across their global business footprint? Fifty-four percent of CEOs surveyed feel that this tipping point is only a decade away, and 80 percent believe it will occur within 15 years: an optimistic view 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 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 influences buying behaviors. Similarly, they are unclear as to the extent to which sustainability concerns will drive purchasing decisions by businesses and governments.
- **Regulatory uncertainty:** Across the board, CEOs spoke of the need for greater clarity around the shape and scope of future regulation in response to regulatory challenges.





## Accelerating the tipping point: Business action is needed

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

1. **Actively shaping consumer and customer awareness, attitudes and needs.** To create a market for sustainable products and services, CEOs see the need to increase the provision of consumer information and set clear standards, as well as direct government incentives and investment in areas such as energy, transport and public infrastructure.
2. **Generating new knowledge, skills and mindsets for sustainable development.** Although businesses believe that formal educational institutions and business schools need to do more, CEOs also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.
3. **Leading the creation of an investment environment more favorable to sustainable business.** CEOs need to be more proactive in engaging with investors to ensure that the value of sustainability activities can be demonstrated through traditional metrics such as cost reduction and revenue growth.

4. **Embedding new concepts of value and performance at the organizational and individual levels.** Businesses will need to measure both positive and negative impacts of business on society, track and manage sustainability's impact on core business drivers and metrics, and embed sustainability in individual performance frameworks for employees 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.

CEOs of the world's leading companies are willing to step up to the challenges ahead, and they recognize that—as the Global Compact celebrates its tenth anniversary—this is 'the end of the beginning' and not 'the beginning of the end' in the transition to a new era of sustainability.

# 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 UN 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, changing industry cost structures, and beginning to permeate business from corporate strategy to all elements of operations.

One of the clearest insights arising from our conversations with consumer goods CEOs is that the perception of sustainability is changing. For leading companies, environmental, social and governance issues are no longer viewed principally through the lens of risk management, but are increasingly seen as an integral part of core business activities, and a vital element in addressing the key strategic challenges faced by the industry:

- **The growth of emerging markets:** Serving the growing middle class in emerging markets—critical to the growth of consumer goods companies—must involve close attention to issues such as clean water, food security and sanitation. As multinational corporations look increasingly to serve new consumers, and grow their footprint in the emerging markets, sustainability issues are becoming ever more fundamental to their licence to operate and grow.
- **Innovating in mature markets:** As product differentiation becomes increasingly difficult with traditional products in established markets, innovation is more critical than ever. Sustainable products and services can be a key to winning market share among those consumers with a growing awareness of companies' record on sustainability issues, and the impact of the products and services they choose on their own environmental footprint.

- **Global supply chains:** Continued cost pressures lead companies to source critical aspects of their supply chains in emerging markets. This heightens the importance of risks associated with sustainability—specifically the awareness of governments and social activists to the impact of companies on the communities in which they operate.

- **Changing consumer behaviors:** As the economy begins to brighten in many areas of the world, companies face the need to respond to consumers' attitudes and needs coming out of the recession: consumers who may have switched to lower-priced brands for a time need to see the value in switching back, and may be prompted by their desire to trade with environmentally responsible companies.

- **Regulatory pressures:** Regulators and lawmakers are becoming increasingly concerned with the environmental and social impacts of companies within their jurisdiction—as consumer goods companies are expected to account for the societal impact of their products, both in production and consumption, forging healthy and collaborative relationships in this area will be critical.

- **Cross-sector convergence and partnerships:** The challenges faced by business and by the development sector are beginning increasingly to align, and approaches and solutions must converge – CEOs see the next decade as one of cross-sector convergence, as traditional boundaries blur and partnerships are characterised by a more complex forms of collaboration involving multi-stakeholder coalitions and the emergence of hybrid business and funding models.

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 consumer goods: State of the industry

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

CEO support for sustainability within the consumer goods industry is strong. Ninety-eight percent of the executives surveyed affirmed the importance of sustainability to the future success of their business, even higher than the global, cross-industry number of 93 percent. Looking deeper into the numbers, support for sustainability can be seen to be even stronger in consumer goods. For example, 63 percent of consumer goods CEOs, compared to the global average of 54 percent, stated that sustainability issues will be "very important" to their future success. And the largest companies are even more supportive: 79 percent of large multinational consumer goods companies reported that sustainability would be "very important."

The global economic downturn might have been expected to weaken the commitment to sustainability issues. In fact, it seems to have done the opposite: 80 percent of consumer goods CEOs believe that the economic downturn has raised the importance of sustainability as an issue for top management. Just 12 percent of consumer goods CEOs – and only 4 percent of CEOs from the largest companies – report that their company has reduced investment in sustainability as a result of the downturn. Although some CEOs believe that the downturn has reduced the speed at which they have been able to integrate their strategies for sustainability, or

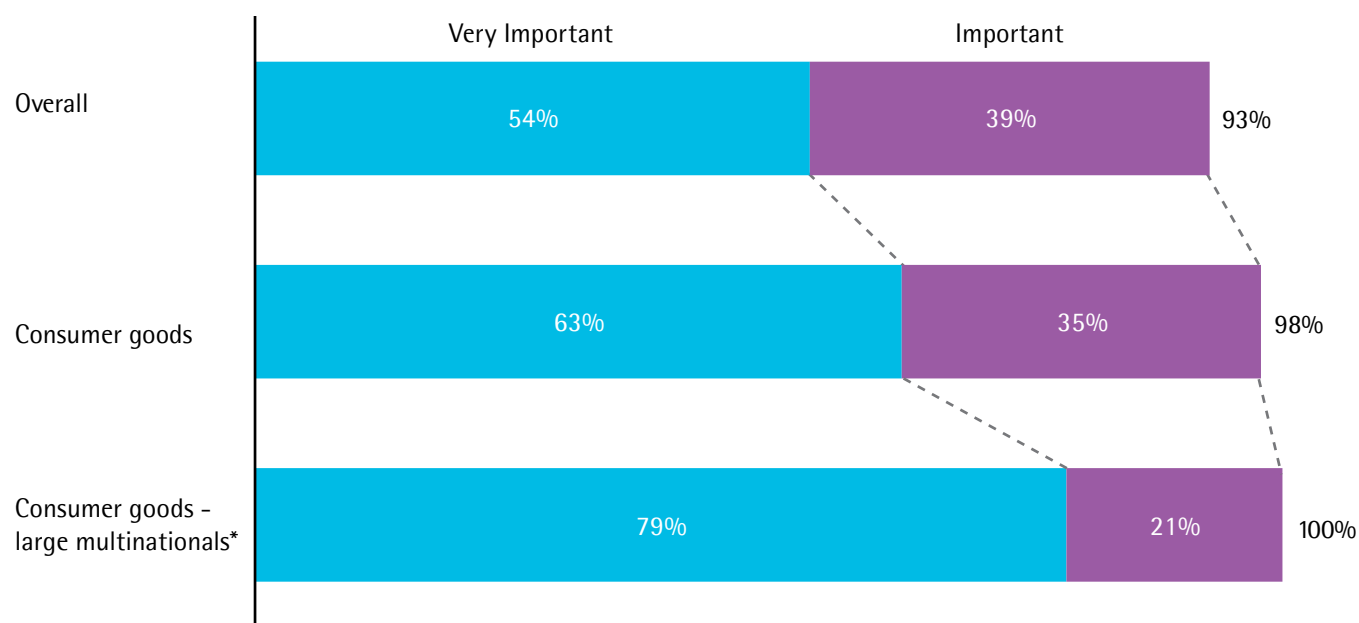
slowed their philanthropic activities, the vast majority agree that the downturn has not derailed their long-term plans to drive a sustainability agenda, and that those projects which have survived and prospered are those which serve both business and sustainability objectives.

### The breadth of sustainability issues is growing

It is clear from our conversations with CEOs that they are almost united in their belief in the importance of sustainability, and determined to be part of the solution—but what do they mean by 'sustainability', and which issues are uppermost in their minds? The breadth and complexity of sustainability issues is 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 consumer goods, CEOs join their peers from other industries in affirming climate change and education as the two most important development issues for their business. However, they also attach more importance to food security (38 percent vs. 22 percent globally) and access to clean water (34 percent vs. 26 percent). The world's largest consumer goods companies have distinctive perspectives: 58 percent of those CEOs identify food security and access to

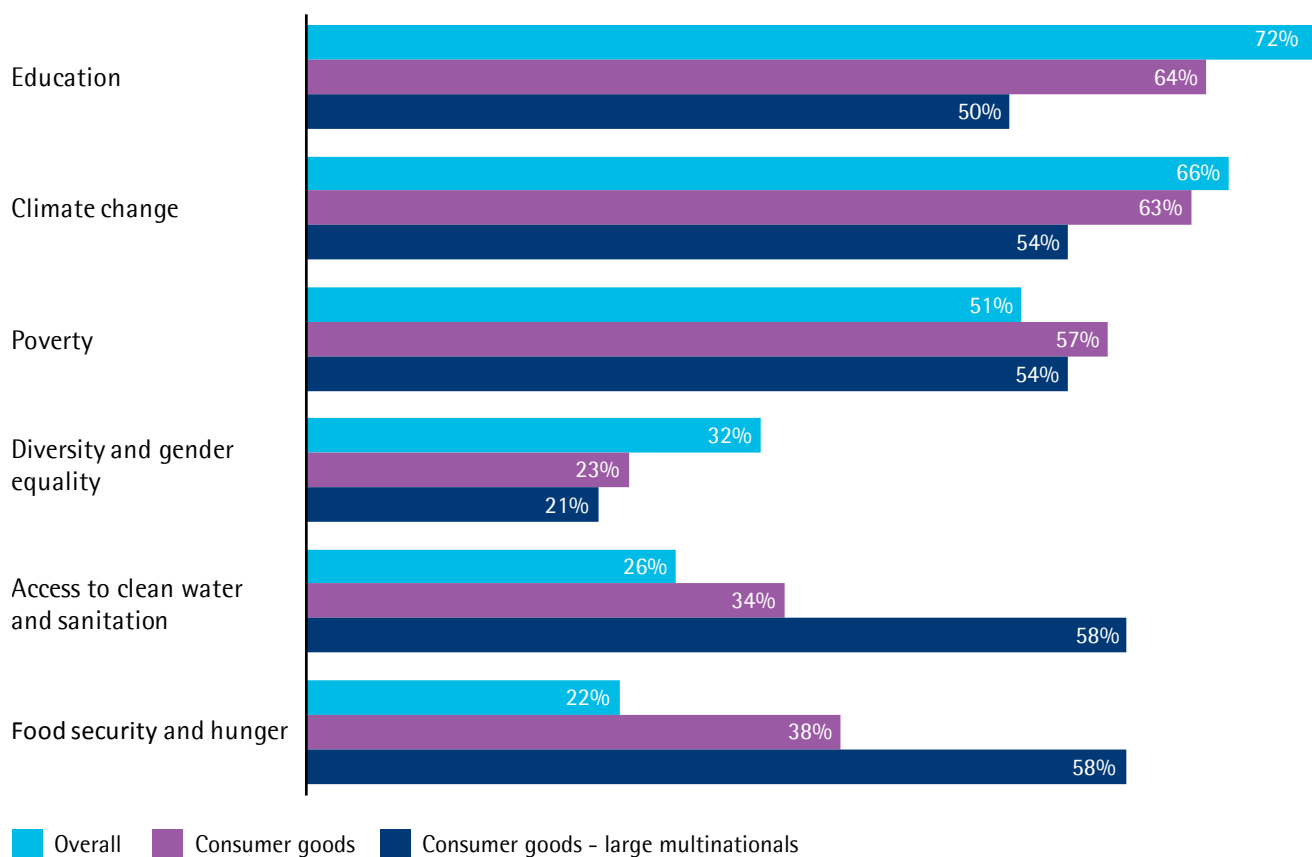
Figure 2.1: How important are sustainability issues to the future success of your business?



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

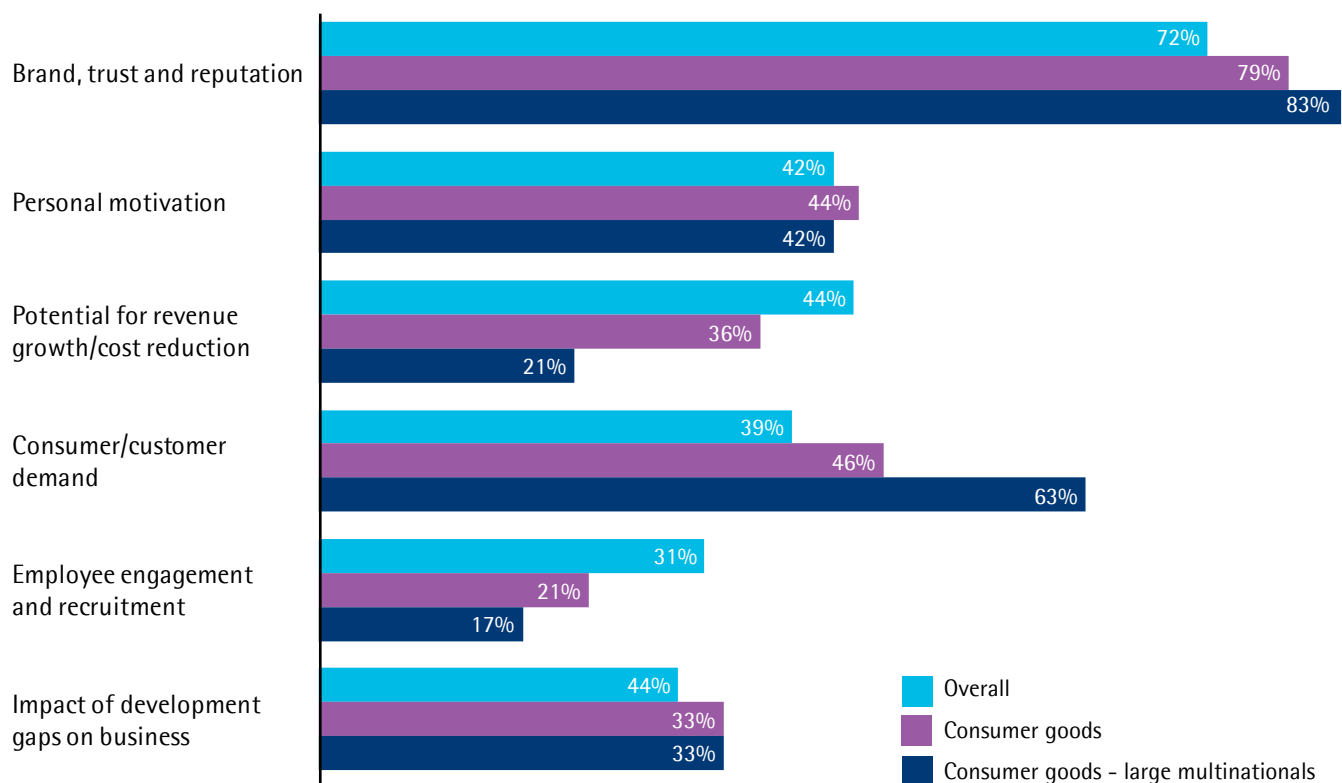
\*Consumer goods companies with revenues >\$1bn p.a.

Figure 2.2: Which of the following development issues are the most critical to address for the future success of your business? (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)

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)

clean water as critical to their success – their top two issues. The prominence of water and food security for the largest consumer goods companies demonstrates the centrality of sustainability to business success: these issues will be critical to consumer goods companies' ability to manufacture their products, particularly in the emerging markets, and consequently CEOs perceive these issues as important not just to societal development, but fundamental to their own licence to operate and grow.

## CEOs see enhanced reputation, reduced costs and improved efficiencies as the greatest opportunities of sustainability

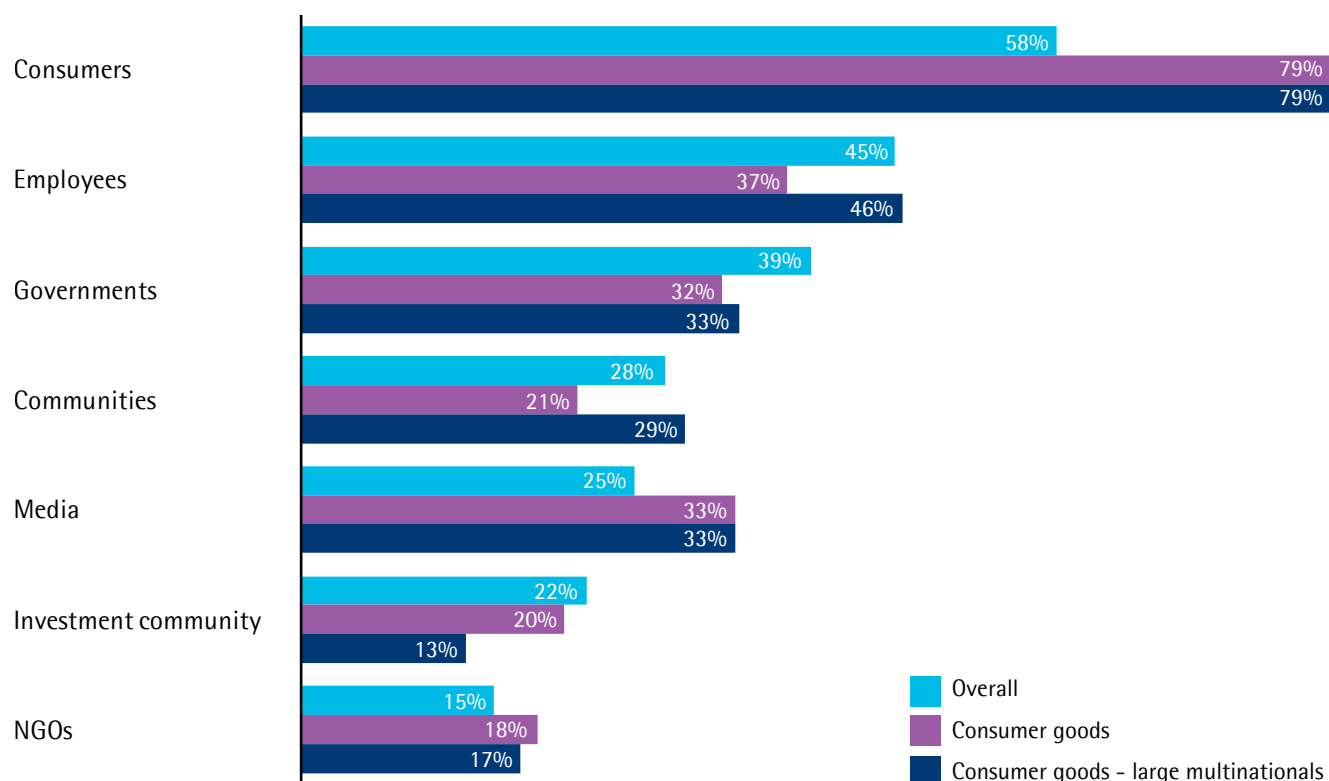
The most commonly cited factor motivating CEOs to take action on sustainability issues is 'brand, trust and reputation', selected by an exceptionally high 79 percent of consumer goods CEOs as one of their top three factors—even higher than the general average of 72 percent. This focus on brand, trust and 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 the consumer.

In the wake of the downturn, many companies perceive a challenge in rebuilding trust with stakeholders, and in making the case for business in society: in the consumer goods industry, where success depends on a positive connection with consumers, this challenge is all the more pressing. As consumer goods 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 the 'new' approach to sustainability are visible in the other factors that leading companies cite as motivators in taking action in sustainability. Consumers are identified as an important motivator for consumer goods companies: 79 percent of consumer goods CEOs named "consumers" as one of their most important stakeholders in shaping their action on sustainability. Furthermore, consumer demand is the second most important motivating factor in the industry, cited by 63 percent of CEOs of the largest companies, versus just 39 percent across all industries. While this may not be surprising for an industry closely concerned with the needs and desires of the consumer – as Nestlé CEO Paul Bulcke says, "we connect with consumers in a very intimate way" – it perhaps suggests that companies are beginning to overcome the lingering uncertainty over whether consumers are really demanding sustainable products and services.



Figure 2.4: Over the next five years, which stakeholders will have the greatest impact on the way you manage societal expectations? (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)

The extent to which consumers are pressuring companies in terms of their environmental impact is a vexed matter, and we will address some of this complexity later. However, the greater pressure consumer goods companies feel may be coming from business-to-business customers—that is, the retailers. Retailers pass on consumer pressure for transparency and sustainable operations, as well as the demand for sustainable products and services, along the supply chain to their suppliers. Retailers such as Wal-Mart, through their Sustainability Assessment, can exert pressure on consumer goods companies to conform to retailers' standards, for example on packaging with a reduced carbon footprint. In this way, even those companies for whom sustainability may not be a core strategic priority are being forced to focus on these issues from a compliance perspective: in meeting the demands of retailers, sustainability is becoming fundamental to consumer goods companies' core business.

## Sustainability aligned with core business

79 percent of consumer goods CEOs report that the downturn has led their company to align sustainability more closely with core business. During this time of economic hardship, businesses have been forced to examine closely how their sustainability activity delivers core business value, measured in terms such as revenue growth and cost

reduction. 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."

Beyond cost reduction, however, leading companies are also attuned to the ability of sustainable products and services to drive revenue growth. According to one North American consumer goods executive, "The major tipping for sustainability will be when we all collectively come to the belief that driving sustainability is a part of top line growth: when it becomes clear to us that being a responsible company will drive consumption of our products is when sustainability will take off."

It is, in part, the ways in which a focus on sustainability can inspire companies and their people to think more creatively that constitutes much of the top-line growth opportunity – designing products with reduced environmental impact, or those which help consumers to reduce their own footprint, may prompt new waves of innovation, creating a competitive advantage for those companies who can address new sources of demand, and differentiate their products on the basis of environmental performance.

## The new era of alignment: Embedded sustainability

The CEOs in the UNGC-Accenture study were also 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 that could be termed 'embedded' or 'integrated' sustainability.

Extremely high percentages of consumer goods executives believe in this integrated approach. Ninety-seven percent of these CEOs believe, for example, that sustainability issues and approaches should be embedded in the strategy and operations of the company; 91 percent also say these issues should be embedded in the strategy and operations of subsidiaries; 94 percent contend that sustainability needs to be integrated into board-level decision making.

In several other areas, however, consumer goods executives reflected their industry's more intense reliance on the efficiency of a complex global supply chain. Ninety-two percent of consumer goods executives feel that sustainability initiatives should be embedded throughout the global supply chain, compared with only 88 percent in the general survey. Ninety percent supported metrics embedded in business processes to track performance against sustainability objectives, compared with 85 percent across the total

survey. And 79 percent believed in using sustainability goals as a measure of employee performance, compared with 76 percent generally. Clearly, consumer goods executives take this matter seriously.

## What does embedded sustainability look like?

It is one thing to consider the possibility of embedding sustainability considerations across a global supply chain, business units and subsidiaries. But what would such a situation look like in practice? Although no major companies claim to have already achieved such full integration, we can see the outlines of embedded sustainability beginning to form in the innovative capabilities of several leading companies.

For example, at outdoor products company Timberland, environmental concerns are being embedded within its core product design process, allowing the company to tap into new sources of demand for more sustainable products. Because 96 percent of Timberland's carbon footprint lies in its supply chain, the materials used in products have a critical impact on the company's environmental performance.<sup>1</sup> In the words of Brian Moore, the company's Vice President of Men's Product, on the launch of Timberland's Earthkeepers 2.0, the first range of Timberland boots to be designed to be disassembled and recycled, "We can be deliberate about designing the 'greenest' footwear





out there—but if at the end of the day those products still end up in a landfill, we haven't really closed the loop on our environmental responsibility."

Previously, designers at Timberland were required to complete a separate 'environmental scorecard' for their new products at each prototype stage. Such a process created additional administrative work for designers, and divorced environmental considerations from the mainstream design process. Today, environmental metrics have been integrated into the primary design platform, providing real-time information to designers as they select materials: the software produces a total measure of the environmental impact of the designs and gives it a score on Timberland's 'Green Index'. In this way, Timberland has encouraged its designers to consider the whole-life impact of the materials they select, thoroughly embedding these concerns in designers' day-to-day operations, and spurring them towards greater originality and product differentiation: as CEO Jeffrey Swartz told us, "If we measure our environmental footprint throughout the value chain, it will unleash a wave of innovation".

Industry collaboration, which will ultimately be a critical factor in moving companies toward more sustainable business, also informs Timberland's strategy. The company is leading industry-wide efforts to standardize the way in which environmental information is measured, working with such organizations as the Outdoor Industry Association's Eco-Working Group and the Leather Working Group.

What about the actual impact of Timberland's sustainability efforts? There, the results are particularly impressive. The company reduced overall emissions by 36 percent between 2006 and 2009, and is on track to reach 50 percent emissions reduction over the next year.<sup>2</sup>

As this overview of the current state of the industry has shown, the mindsets of consumer goods 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

## Making progress: From strategy to execution

### The challenges ahead: Closing the performance gaps

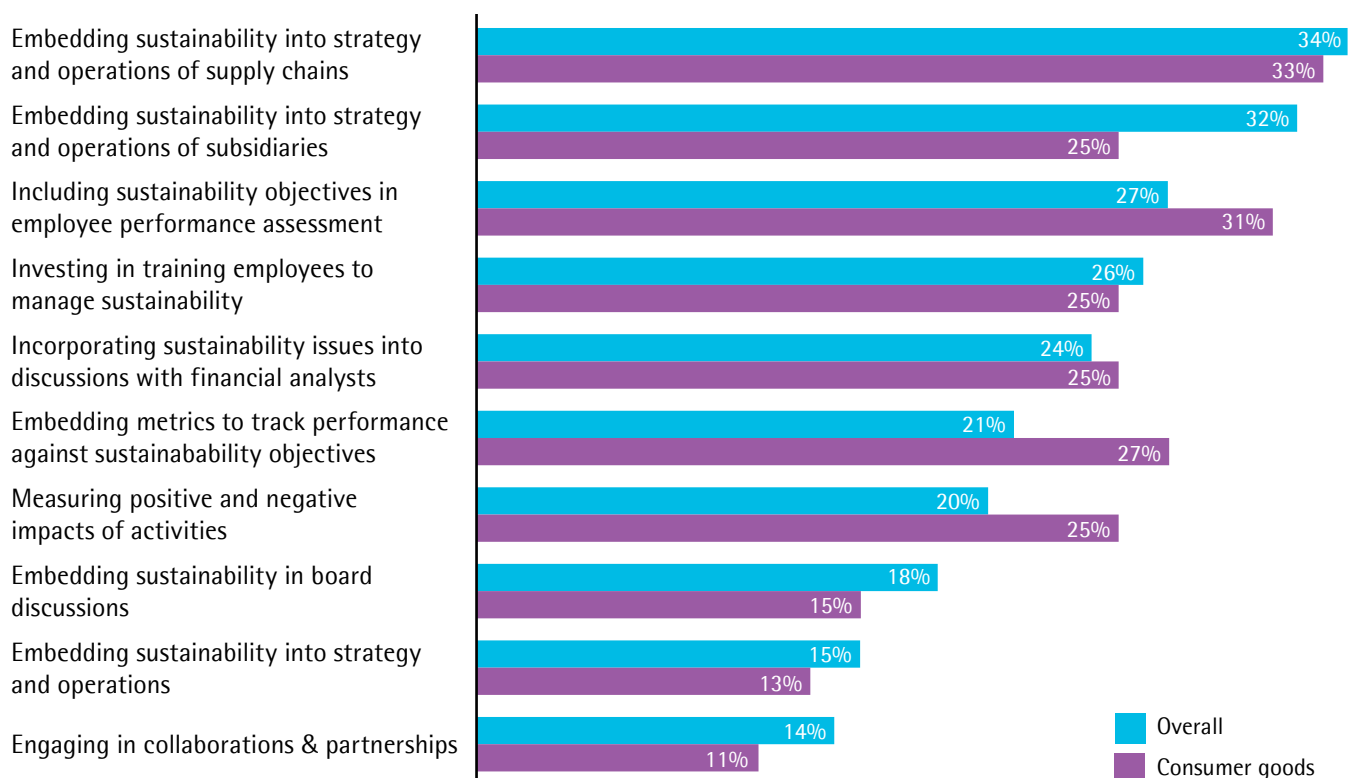
CEOs are aware that truly embedded sustainability is a vision of the future, not a description of the operations and strategy of most companies today. Yet the majority of executives believe that a 'tipping point' to a new era, where sustainability is fully integrated into the strategy and operations 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 – but with a chastening recognition that many challenges lie ahead.

Put most simply, the principal challenge in reaching the new era is one of execution. Although the support for sustainability among CEOs in the consumer goods industry is nearly universal, 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 on their own company's performance: 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.

For example, while 97 percent of consumer goods executives say that sustainability issues should be integrated into strategy and operations, only 84 percent say such integration exists in their company, a performance gap of 13 percent – and our conversations with CEOs on the challenges of integration suggest that even this may be interpreted as overconfidence. On digging deeper into the specifics of integration, greater gaps are apparent: for example, 91 percent say sustainability should be integrated into a company's subsidiaries, but only 66 percent have achieved such integration, suggesting a performance gap of 25 percent. Similarly, 92 percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, but only 59 percent are confident this has been achieved, a gap of 33 percent.

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

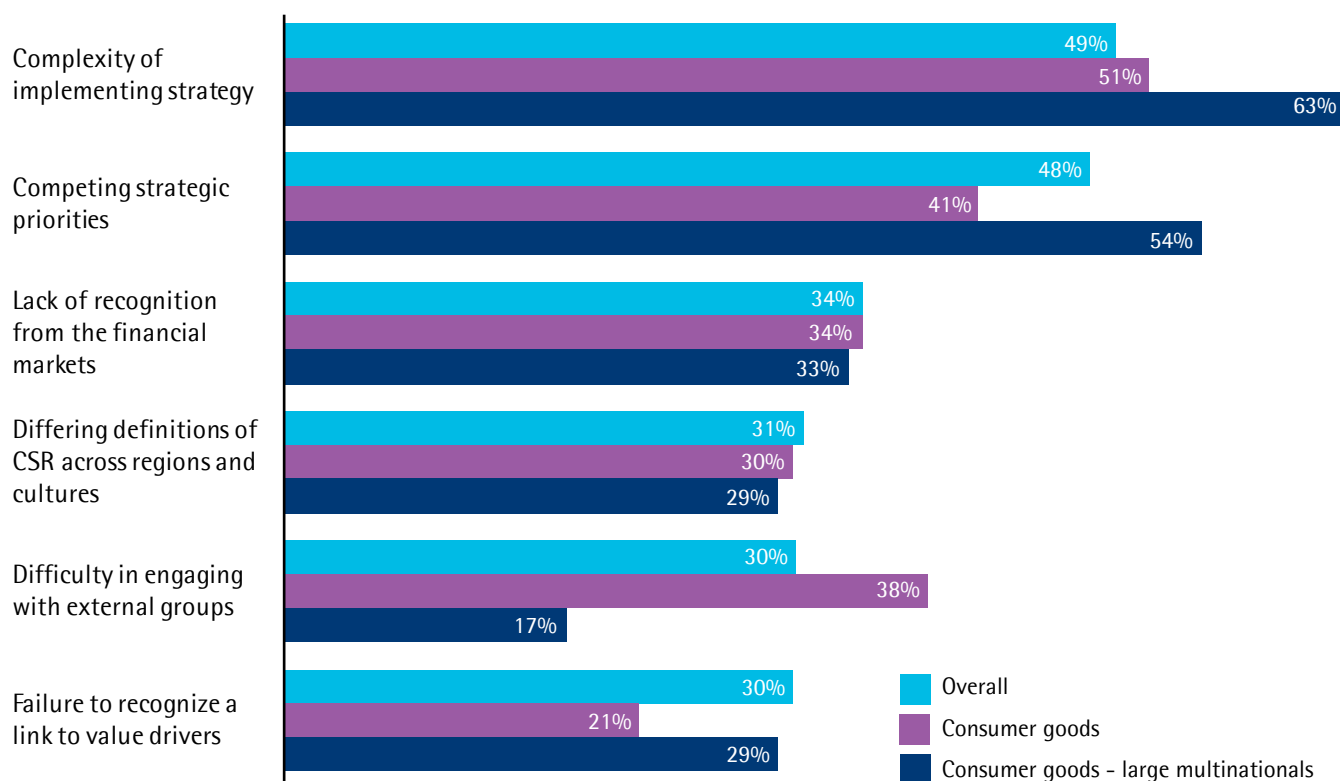
Figure 3.1: Performance gaps between 'companies should' and 'my company does'



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 selecting each option as one of their top three choices)



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

## Internal challenges

CEOs 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 these challenges are the need to balance and prioritise multiple objectives and initiatives, and to push sustainability principles across companies' broader footprint of supply chains and subsidiaries.

### 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-one percent of consumer goods CEOs say such integration is their primary obstacle, a number that rises to 63 percent among executives of the largest companies – perhaps reflecting the greater challenges of integrating sustainability through larger and more complex organisations. Rising concerns about complexity demonstrate how CEOs are shifting their sustainability focus from strategy-setting to execution: of particular issue for many of the CEOs we spoke to was the challenge of ensuring a consistent, company-wide approach across large and increasingly complex supply chains, as well as through their subsidiaries.

## Competing strategic priorities

Forty-one percent of consumer goods CEOs report that competing strategic priorities are 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.

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 European business leader. "It shows that sustainability is not yet embedded across all of their priorities." This observation bears witness to the fact that for many businesses, 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.

## People and performance

Performance gaps are also apparent with regard to the capabilities and assessment of employees. Eighty-seven percent of consumer goods CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 62 percent report that their company already does so.



The transition from employees' acknowledgement of the importance of sustainability to the point at which such issues are incorporated in their day-to-day work will be a further challenge. Such a shift may be supported by the incorporation of sustainability objectives into employee performance assessments. Here, too, our survey data shows a gap between ambition and reality: although 79 percent of consumer goods CEOs believe that such metrics should be included, just 48 percent report that they are currently taken into account at their own company.

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

## External challenges

As well as overcoming the internal challenges of integration, CEOs also believe that there are a number of barriers in the external environment that are preventing them from adopting a more embedded approach. These barriers cannot be overcome by business acting alone – but CEOs recognise 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 demand

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—the majority of CEOs consider the consumer, as well as business-to-business and government customers, to be key drivers of change. However, a critical question on the minds of CEOs today is whether sustainability issues and interests are actually driving predictable consumer and customer behaviors and desires.

Our research finds mixed responses about this question. Many CEOs we spoke with expressed 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 values of the younger generation of 'ethical consumers' – or 'Generation Y' – would last, or whether they would come to be seen as a passing trend. As one consumer goods multinational CEO told us, "Consumer engagement may be soft: the apparent engagement with environmental and sustainability issues may be explained by Generation Y's longer period of carefree living. But their values may not follow through into middle age."

Across the board, CEOs are uncertain how to interpret consumer demand for sustainable products – consumer survey data appears to conflict with purchasing

signals, which in turn are filtered through retailers. CEOs seemed largely to agree with another business leader from the consumer goods sector 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 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: 89 percent of CEOs believe that the majority of consumers demanding sustainable products and services will be critical in reaching a 'tipping point' in sustainability. So, although consumer demand for sustainable products and services represents a significant opportunity for business, the path toward embedded sustainability is beset by challenges around understanding consumer attitudes and tastes.

Some questions related to consumer demand are particularly vexing to the consumer goods industry. Do companies lead demand, or are they led? The onus may be on companies to create demand through product offerings, but they must also respond to retailers' demands. Consumer education and communication with regard to products' sustainability

benefits will also be crucial to success. Sustainability metrics may be difficult for the consumer to interpret and contextualize, and companies will be expected to demonstrate relevant and tangible personal benefits to the individual consumer: for example, cost savings, the benefits to local communities (such as increased employment), and reduced carbon emissions.

A final consumer-related challenge is how consumer goods companies are to solve the apparent paradox between their belief in the importance of sustainability – and consequently a move towards lower consumption – and their primary business purpose in encouraging people to purchase and consume more, driven through product innovation and differentiation. As Unilever CEO Paul Polman says, "all we can really do [to address sustainability challenges] is to consume differently and consume in a sustainable way: business that understand that and have sustainable growth models will be successful in the long term".

### Engaging the investor community

It appears that mainstream investors are at present a critical, if predominantly absent, 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 20 percent of consumer goods 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 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. And pessimism in this regard was by no means unanimous. Indeed, Paul Polman, CEO of Unilever, noted that "The financial community is increasingly looking at companies and rewarding those that think smartly about their use of resources."

### Achieving more regulatory certainty

Consumer goods CEOs expressed a need for clearer regulatory and policy standards, especially regulation that helps companies unwind the complexities of international markets. As Jeffrey Swartz, CEO of Timberland, put it, "One huge barrier is the lack of clear standards, targets and policy." At the same time, executives are also wary of overreaching regulation, pushing too fast and thus hampering the efforts of business to find the balancing point between business and societal value.

In our survey, 66 percent of consumer goods CEOs (vs. 60 percent globally) would welcome increased government intervention in the market to drive sustainability—but many are nervous of unintended consequences of government action. As CEO Paul Walsh of Diageo put it, "Prescriptive regulation without effective collaboration could result in unintended consequences." For example, in some emerging and developing economies, government measures to increase taxation on alcohol with the aim of reducing abuse have actually led to an increase in the illegal market for illicit and highly toxic alcohol. By broadening the network of stakeholders involved in the process of policy formulation, the chances of these negative effects could be reduced.

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 and innovative action to set their companies on the road to a new era of sustainability – but they recognise that the journey will be long and complex, and they will have to overcome a series of challenges, both internal and external, in order 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 & intangibles.

The innovations of sustainability pioneers in consumer goods 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 companies can overcome the challenges of integration, and shape the conditions that will be conducive to more sustainable companies operating in a more sustainable economy.

### Supply chain management and sustainable packaging

Identified by CEOs as one of the key challenges to embedding sustainability within their company, integrating sustainability through the supply chain will be critical to progress in corporate sustainability, particularly in the consumer goods industry. Whilst it is clear from our conversations that many companies have made significant progress in moving from strategy to execution on sustainability within their own operations, achieving similar progress through large and complex networks of suppliers has proved more difficult.

As consumer goods companies begin to grapple with today's strategic challenges, though, leaders in sustainability are beginning to focus more acutely on overcoming these challenges. For example, as companies are forced continuously to drive down production costs, they are seeking to locate critical parts of their global supply chain in lower-cost locations, often in the emerging markets. While making a positive impact on costs, this emerging-market focus of a more elongated supply chain creates significant management challenges – and presents a greater onus on companies to ensure that their approach to sustainability is reflected by their suppliers.

One way in which leading companies are addressing these challenges is through collaboration with local partners, particularly non-governmental organizations (NGOs). The expertise of NGOs in dealing effectively with local issues, combined with the scale of multinational corporations, can create powerful partnerships which serve both business and social objectives: 83 percent of CEOs of the largest consumer goods companies believe that their companies should engage in multi-stakeholder partnerships to address development goals.

Nestlé, for example—a company that depends on sourcing the essential product ingredient of palm oil from emerging markets—has faced the need for greater transparency about its sourcing strategies. Nestlé needed to spread sustainable agriculture methods to all of its suppliers to reduce the environmental impacts of their goods while simultaneously increasing quality and securing its long-term supply sources. To make this happen, Nestlé partnered with The Forest Trust (TFT), a global non-profit organization combating deforestation, to ensure the sustainable sourcing of palm oil throughout its supply chain. Together with TFT, Nestlé has defined what it calls Responsible Sourcing Guidelines, a set of critical requirements to guide the Nestlé procurement process and to ensure compliance with the Nestlé Supplier Code. The partnership will focus on assessing suppliers' performance with respect to these guidelines and on providing technical support to those

who currently do not meet the requirements, but who are committed to working with Nestlé on its sustainability goals.

Nestlé's goal is that by 2015 100 percent of the palm oil it uses will come from sustainable sources. The company has made strong progress toward that goal: 18 percent of its palm oil purchases in 2010 came from sustainable sources, a figure expected to reach 50 percent by the end of 2011.<sup>3</sup>

Similarly, Lipton—consumer product company Unilever's biggest tea brand—has partnered with the Rainforest Alliance to drive sustainable production throughout the company's supply chain for black tea. Unilever is the biggest buyer of black tea in the world, accounting for about 12 percent of the entire market. The Rainforest Alliance is a pioneer in setting standards and certifying sustainable agriculture methods. Such expertise has prompted Unilever to engage with the NGO actively to respond to consumer and customer concerns and drive sustainable agriculture through its supply chain.

The tea market has been experiencing decreasing prices, with negative consequences for low-income farmers. Consequently, the partnership has benefitted both parties. Certified farmers manage their tea crop better, reducing farming intensity as well as giving them higher returns—certified tea has a 10-15 percent price premium compared to average tea prices, which Lipton passes

directly onto its suppliers. For Lipton, the partnership has helped increase sales in highly competitive markets such as the United Kingdom, where sales increased by 5.6 percent in 2008 following an advertising campaign announcing the partnership. In key growth markets, double-digit returns were seen in 2008, with sales increasing by 10 percent in Italy and 12 percent in Australia.<sup>4</sup>

Certifying sustainable sourcing, however, is just one aspect of consumer goods companies' challenges in embedding sustainability through the supply chain. As the result of pressure from consumers and retailers, and the impact of rising transport costs, packaging has become a key focus for companies seeking to cut costs whilst building their brand and reputation around sustainability. This demand from retailers – such as Wal-Mart, who in 2009 set a target to reduce the amount of packaging in its supply chain by 5 percent by 2013, and to eliminate waste entirely in its 4,100 US stores by 2025<sup>5</sup> – places considerable pressures on consumer goods companies to work with their suppliers in order to minimize unnecessary packaging and wastage, as well as using more sustainable materials. Leading companies are setting ambitious targets: for example, Procter & Gamble aim to use 100 percent renewable or recycled materials, such as its sugarcane-derived plastic, for all packaging by 2020.<sup>6</sup>

## Innovation and product design

Innovation and design are critical to the success of consumer goods companies, particularly in taking advantage of the next wave of growth in the emerging markets. Consumer products companies are now competing in a much broader world market, especially as growing numbers of people in emerging markets become more active participants in the consumer economy. Selling mass volumes of products to millions of people, while making small margins on each item, requires innovation in product design to provide goods that may differ significantly from those sold in traditional markets.

Natura, Brazil's leading manufacturer and marketer of skin care, cosmetics, perfume and hair care products, has initiated several innovative programs aimed at optimizing both production and consumer relationships in emerging markets. Natura has adopted a business strategy of investing in a new product platform based on the sustainable use of natural resources and respect for regional and local cultural traditions.

With this business model, the company established partnerships with rural suppliers (traditional communities and family farm groups) in some regions of Brazil and crafted a network that promotes research and development, discovers new natural resources, and seeks to refine products and processes, with the intention of protecting and contributing to Brazilian biodiversity. Natura encourages the organization and nurturing of rural suppliers and seeks to participate in the construction of supply chains to ensure fair pricing of raw materials,

focusing on the promotion of the social and economic progress of these suppliers and the adoption of production processes with lower environmental impact.

In mature markets, particularly the saturated markets of Western economies, one of the key challenges for consumer goods companies is the need to understand and address consumers' constant and restless demand for something new. The ability to innovate is essential in markets where success might be measured by very small percentages of market share – which nevertheless may be worth hundreds of millions of dollars each year.

## Marketing and consumer/customer relationships

From our conversations with consumer goods CEOs, it is clear that business leaders see sustainability reshaping their relationships with consumers and business-to-business customers – but that there remains a degree of uncertainty about the extent to which sustainability attributes drive purchasing decisions. Leading companies recognise that they have an active role to play in shaping demand that will be conducive to sustainable products, services and operations, through the provision of information that will help both their retail customers and the end consumer to make informed choices.

Timberland – as we have seen, one of the leading companies in the consumer goods industry in integrating sustainable thinking into their day-to-day business practices – have placed consumer education and 'green transparency' at the heart of their efforts to differentiate their brand and shape consumer demand. The company has started to place detailed environmental impact labels ('nutrition labels', as they have been nicknamed) on all of its shoes, explaining to consumers the amount of chemicals and energy used, the types of materials used in production, and the amount of carbon released to produce the shoes. These labels engage consumers on sustainability issues, and encourage decision-making informed by environmental impact. Fifty percent of consumers surveyed in a recent study reported that Timberland's nutrition labels had 'positively influenced' their purchase.

## 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>7</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 offers significant potential for further advances in China (currently 130 tons per annum) and the US (80). At the same time, because mobile handsets contain many different valuable materials (e.g. copper, iron and aluminum), 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>8</sup>

## Government, regulator and stakeholder relationships

Navigating the sometimes confusing maze of regulations (and regulatory intentions) will require consumer goods companies to do more than react to regulations presented as a fait accompli. Companies must anticipate changes in the legal and regulatory landscape and work proactively with regulators to fashion outcomes that promote both environmental and commercial sustainability: 74 percent of CEOs believe that proactively engaging with policy makers on issues beyond industry-specific concerns will define business leadership on sustainability in the future.

An example of collaborating effectively with regulators comes from Diageo, the largest multinational beer, wine and spirits company in the world. Diageo has launched innovative dual-impact projects that promote community development and produce revenue. For example, the company developed a brand of low-cost beer called Senator Keg to help manage the risks of illicit alcohol markets in developing regions. In developing the idea for Senator Keg, Diageo believed that making a low-cost, low-price beer available in these communities would discourage buying of unsafe alcohols. "Our solution was to produce an inexpensive beer that would attract people away from these illicit brews, but we couldn't make it inexpensively enough if it was heavily taxed," explains Will Peskett, formerly head of the company's corporate citizenship program.

The company decided to reduce the cost of the beer by offering it on draft rather than bottled, and in addition sought to reduce the tax on the beer to lower its price further. After developing the Senator Keg recipe, Diageo brought the proposal to the local government. "We said, 'Is there any chance you would tax this as a special deal to try to attract the budget drinker away from dangerous drinks?'

And they agreed," recalls Peskett. He describes the project's evolution: "We set up kiosks with proper glasses, and we trained mostly women as bar owners, teaching them about hygiene, how to wash glasses, how to rotate stock, how to serve and how to deal with customers who had too much. The government was pleased because they started to get more tax revenue—they were effectively taxing a sector that hadn't been taxed before—and they also saw a health benefit. In fact, the government was so delighted with the health benefit that they reduced the tax to zero. So with a zero tax the beer was incredibly affordable, and it took off. Whilst we've started to earn limited profits from the beer, we're putting the profits back into producing more locally produced product which creates more demand for a safer affordable alternative to illicit brews."<sup>9</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 consumer goods companies are beginning to take a new approach to 'business-as-usual', employing sustainability as a lens to focus on the critical opportunities offered by the transition to a low-carbon economy. Despite strong progress, however, CEOs recognise 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 in order to begin shaping these conditions.

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

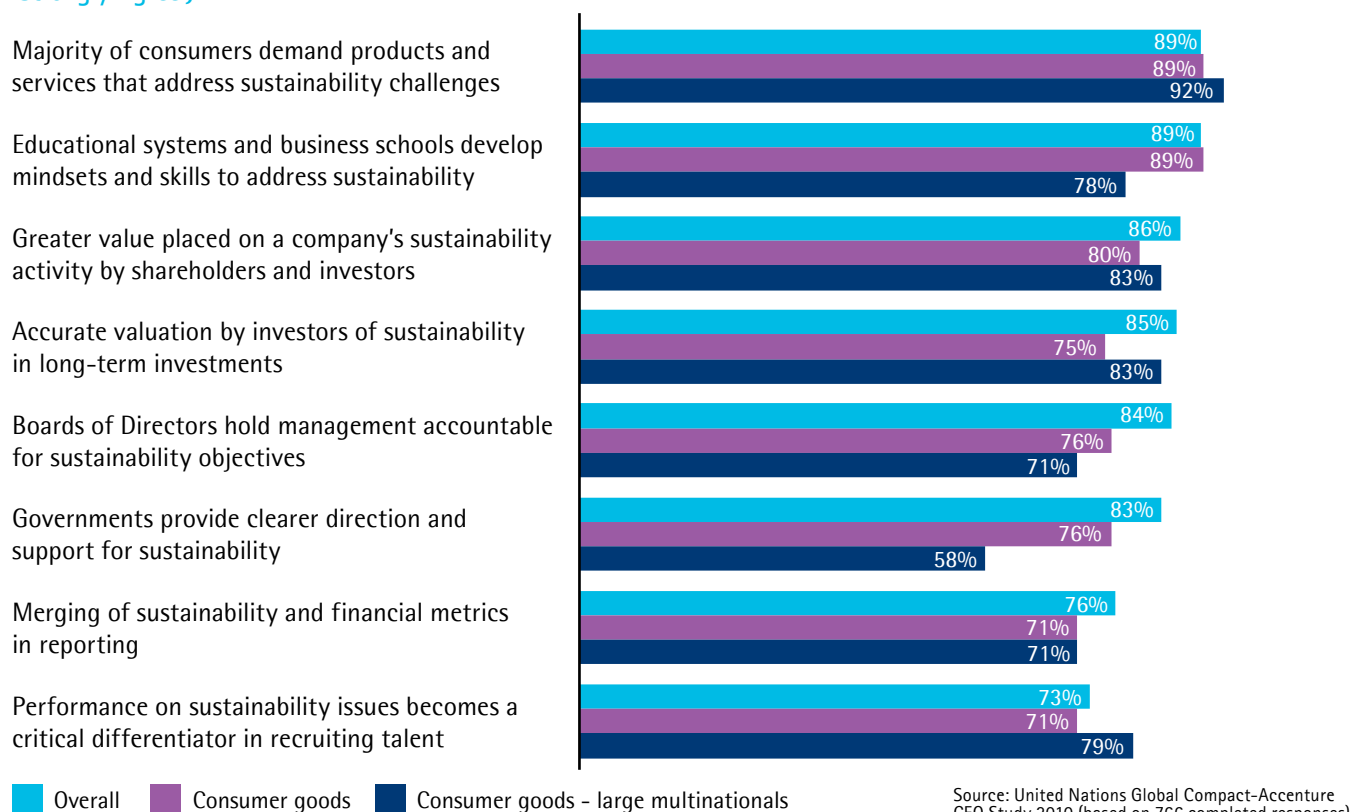
Example business actions:

- Measure and communicate whole-life impact through production, manufacture and consumption at a product level
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts

Eighty-nine percent of consumer goods CEOs identify the point at which the majority of consumers demand products and services that address sustainability challenges as important to reaching a tipping point. Within that, 47 percent identify it as "very important"—the highest response to this question.

Many CEOs we spoke with are starting to shape emerging tastes and preferences for sustainable products and services. As one consumer goods executive put it, it is about "making the sustainable choice the easy choice, if not the default choice." There are two principal actions that CEOs identified as important: 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

Figure 5.1: 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? (Respondents selecting 'Agree' or 'Strongly Agree')



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, Unilever's 'Sustainable Living Plan' sets out a vision for the sustainable growth of the company as they look to double sales by 2020 whilst halving the environmental footprint of its products and increasing the positive social benefits arising from Unilever's activities. The plan sets out a strategic, business-integrated approach to reduce the company's impact across greenhouse gases, water and waste, with each area supported by a metric to measure the company's sustainability footprint, often across the value chain and at the product level. Through reducing their environmental impact, maximizing the positive social impact of their operations, and measuring, tracking and communicating the results, Unilever aim to create an active point of differentiation for the consumer.<sup>10</sup>

## 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-nine percent of CEOs identify the point at which educational systems and business schools develop mindsets and skills needed for future leaders to address sustainability as important to reaching a tipping point in sustainability: as Timberland CEO Jeffrey Swartz told us, "future capabilities will be very different, and will put a premium on lateral thinking and cross-functional, collaborative problem solving." Based on our conversations, consumer goods CEOs see the importance of education and skills at three levels.

First, 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 consumer goods 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 collaborating 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: eighty-seven percent of consumer goods CEOs believe that companies should invest in enhanced training of managers to integrate sustainability into strategy and operations—but only 62 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

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 50 percent of consumer goods CEOs report that they currently incorporate sustainability issues into discussions with financial analysts.





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 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 such as the P&L and 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 telecommunications company LM Ericsson, told us: "We believe that it is not only a company's economic performance that determines its success, but rather successfully combining economic performance with active management of how the business impacts on social and environmental factors." Or in the words of Jamshed J. Irani, Director of India's Tata Steel: "You cannot be a spike of prosperity in a sea of poverty."

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

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 preempt formal regulation and create new forms of self-regulation and collaborative governance—e.g., the Kimberley Process for 'conflict-free' diamonds

To avoid the unintended consequences of unhelpful regulation, build trust and provide a more informed basis for policymaking, businesses can adopt a more proactive and collaborative approach with governments. According to Paul Walsh, CEO of Diageo, "Governments have to recognize the role that business plays, and make business an equal partner in the process." Diageo, along with other major food and drink manufacturers such as Kellogg's, Unilever and Mars, have recently joined a series of 'responsibility networks'

established by the UK Department of Health. These networks, co-chaired by business and government ministers, will be asked to explore voluntary alternatives to legislation and regulation of the food industry to tackle public health issues.

In the alcohol industry, Heineken, one of the world's leading brewers, engages in multiple partnerships with a variety of organizations to try and combat the negative impacts of alcohol on society, which helps to demonstrate to regulators that the company and industry can be self-policing. Heineken has developed tailored programs in many markets with the International Center for Alcohol Policies that promote responsible drinking and help prevent alcohol abuse, and the company is part of the Global Alcohol Producers (GAP) Group, an industry coalition representing leading alcohol companies that provides a channel for WHO and member state governments to engage in constructive dialogue with leading alcohol beverage companies on health problems caused by harmful drinking patterns.

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 5.2: 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 developments 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 consumer goods companies, based on CEO interviews

- Measure and communicate whole-life impact through production, manufacture and consumption at a product level
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts
- 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
- Develop the knowledge, skills and attitudes necessary for improved stakeholder engagement
- 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
- Devise mechanisms to measure both positive and negative impacts on society and articulate value beyond traditional accounting concepts such as the P&L and the balance sheet
- Embed sustainability issues into the performance and remuneration packages of top executives
- Engage with governments and stakeholders to adopt collaborative approaches to shaping regulation—e.g., joint working groups, co-location of staff
- Develop industry standards that preempt formal regulation and create new forms of self-regulation and collaborative governance —e.g., the Kimberley Process for 'conflict-free' diamonds

\* Illustrative examples from conversations with CEOs

# 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, in the consumer goods sector and beyond, will be integral to development. In the words of Gareth Penny, Group CEO of De Beers, "Successful business is what drives sustainable growth."

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

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

A new era of sustainability is far from guaranteed and will require both leadership and urgency. As Paul Polman, CEO of Unilever, warned: "If you run a business for the long term, sometimes you have to overcome some short term hurdles. I always say that you cannot climb a mountain if it is a smooth surface: tradeoffs are often used as excuses not to do things".

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

## References

- <sup>1</sup> Timberland corporate website
- <sup>2</sup> Timberland Green Index Program Report, 2009
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- <sup>4</sup> Rainforest Alliance Website; interview input
- <sup>5</sup> Wal-Mart corporate website
- <sup>6</sup> Procter & Gamble corporate website
- <sup>7</sup> Nokia Sustainability Report 2009
- <sup>8</sup> Nokia corporate website
- <sup>9</sup> "Blending Sustainability into the Mix at Diageo", Accenture 2010
- <sup>10</sup> Unilever Sustainable Living Plan, November 2010

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