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United Nations Global Compact

UN Global Compact-Accenture CEO Study

Towards a New Era of Sustainability in the Energy 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.



Georg Kell
Executive Director
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Introduction

Arthur Hanna 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 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 more than 50 major energy and utility companies around the world, including Eskom, Eni, Iberdrola, OMV and RWE.

Whilst 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. 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.

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 government regulation, investor interest in sustainability and the relationship with the consumer 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.



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As we look towards the next decade, and new waves of growth, it is clear that CEOs are beginning to recognise the scale of the challenge they face in aligning sustainability with core business, and in creating the environment necessary for sustainable business to prosper. They also recognise, however, that this transition will depend on the economy's most powerful force, business—and that, with immediate and sustained action, individual companies can play a critical role in building the foundations of a more sustainable economy. Nowhere is this more keenly felt than in the energy 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.

A stylized, handwritten signature in black ink, appearing to read 'Arthur Hanna'.

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

Executive Summary

The sustainability landscape is changing

Since the last study in 2007, we have witnessed a fundamental change in CEOs' views on sustainability. Business leaders worldwide now see sustainability as central to their business: 94 percent of CEOs in the energy sector 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, across many industries, 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.

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 global financial crisis, and further weakened by recent environmental

pressures affecting the energy industry. Strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues, identified by 72 percent of CEOs. However, CEOs may 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

The energy industry is at a point of transition. Resource scarcity, demographic change and geographic shifts in demand are combining to create a compelling imperative for change, as energy companies seek to supply new waves of growth whilst managing shifting supply patterns and growing pressure on their environmental and social impacts. The transition to a future energy system is complicated by a fractious relationship between energy companies and national governments, a collapse in trust in business, and an uncertain regulatory outlook, all of which contribute to a landscape in which a managed transition will be challenging and complex.

In addressing the intricacies of transition, energy companies are more aware than ever of the need to shape a future energy system in the context of sustainability principles, from the immediate imperative of environmental impacts to wider issues of social and economic development, labour standards, anti-corruption and human rights. Taking the lead in integrating these issues into strategy and operations will allow energy companies not only to lead the transition towards a sustainable future, but also to position themselves for future competitiveness.

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 towards this new era is strong, and their companies are taking concrete steps towards 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 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 towards 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:

- **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.
- **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.

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. 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.
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. 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.

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.

CEO opinion: by the numbers

53 CEOs in the Energy industry, from 30 countries

94%

94% of CEOs in the energy industry believe that sustainability issues will be critical to the future success of their business.

96%

96% of CEOs in the energy industry believe that sustainability issues should be fully integrated into the strategy and operations of a company.

70%

70% of CEOs in the energy industry cite 'brand, trust and reputation' as one of the top three factors driving them to take action on sustainability issues.

51%

51% of CEOs in the energy industry identify governments as the most important stakeholder group that will impact the way they manage societal expectations.

92%

92% of CEOs in the energy industry see 'accurate valuation by investors' of sustainability as important to reaching a tipping point in sustainability.

51%

51% of CEOs in the energy industry cite complexity of implementation across functions as the most significant barrier to embedding sustainability.

81%

81% of CEOs in the energy industry see climate change as the global development issue most critical to address for the future success of their business.

94%

94% of CEOs in the energy industry believe that companies should integrate sustainability through their supply chain; only 57% believe that their company has.

91%

91% of CEOs in the energy industry 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, for many industries, 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 CEOs in the energy industry is that the perception of sustainability is changing. For leading companies, environmental, social and governance issues are no longer viewed purely through the lens of risk management, but are increasingly seen as a vital element in addressing the key strategic challenges faced by the industry.

The energy industry is at a point of transition. Resource scarcity, demographic change and geographic shifts in demand are combining to create a compelling imperative for change, as energy companies seek to supply new waves of growth whilst managing shifting supply patterns and growing pressure on their environmental and social impacts. The transition to a future energy system is complicated by

a fractious relationship between energy companies and national governments, a collapse in trust in business, and an uncertain regulatory outlook, all of which contribute to a landscape in which a managed transition will be challenging and complex.

In addressing the intricacies of transition, energy companies are more aware than ever of the need to shape a future energy system in the context of sustainability principles, from the immediate imperative of environmental impacts to wider issues of social and economic development, labour standards, anti-corruption and human rights. Taking the lead in integrating these issues into strategy and operations will allow energy companies not only to lead the transition towards a sustainable future, but also to position themselves for future competitiveness.

- **Growing and shifting demand.** Industry projections suggest that primary energy demand will increase substantially between now and 2030, with oil, gas and coal remaining dominant as gas becomes the transition fuel of choice. In some mature economies, demand may decrease as new environmental regulations take effect, and as urban environments adopt innovations such as intelligent infrastructure in order to reduce their energy demands. Conversely, in emerging markets, high levels of economic growth are likely to trigger tremendous increases in energy demand.

Energy supply will need to keep pace with these growing demands, with consequent shifts in the geographic profile of demand towards frontier geographies. The principal challenge from a supply perspective will remain access to energy resources, which has become more complex due to a variety of environmental, geopolitical and infrastructure-related factors, and the challenges inherent in rebalancing asset portfolios across geographies.

Meeting new demand whilst managing environmental constraints will require new approaches on the part of energy companies, as they look to supply new waves of growth whilst managing the impact of resource scarcity, emissions regulation and complexities of supply.

- **Declining trust.** Recent events have shaped a uniquely challenging environment for energy companies. Faced with a broader collapse in trust in business in the wake of the downturn, intensified by the prominence of risk and integrity issues in the sector, energy companies face a challenge in rebuilding the trust of governments, regulators and the public. Shaping a future energy system will require close collaboration amongst the industry's many stakeholders, and the efficacy of this collaboration will depend in large part on rebuilding trust: as one CEO told us, "To make the transition, we need a lot of trust in the system – and we're not in that place right now."

- **The rise of NOCs.** The end of the 'easy oil' era is here. Oil and gas reserves globally are increasingly owned by national oil companies and their governments, and estimates indicate that 80 percent of future world incremental production will need to come from national oil companies (NOCs), since they now control nearly 70 percent of oil reserves and 20 percent of gas reserves. As growing resource scarcity puts greater emphasis on access to reserves, international oil companies (IOCs) will have to find new ways of working in partnership with NOCs and national governments, collaborating to secure supply whilst building their brand and reputation in local markets.

As a consequence, those IOCs able to develop strategies for greater social engagement in local markets, such as funding infrastructure projects or educational programs, may have an advantage in securing a licence to operate – bringing issues previously regarded as those of 'social responsibility' to the heart of core business.

- **The growth of clean energy and renewables.** Before Copenhagen, anticipation was high about a binding global agreement on climate change being put in place. Such a development never materialized, but even in the wake of Cancún and the slowing pace of international agreement, the transition towards a future energy system is still high on the agenda of many countries. Although some OECD countries are further along the path, most are still working out how to transition to new energy sources while at the same time decarbonizing their power infrastructure.

Increasing the sustainability of the energy system will require a combination of solutions. Renewables will need to play a larger role in the global energy mix. However, for that to happen, infrastructure improvements such as construction of smart grids must be made. The scale of this challenge should not be underestimated. Companies are also uncertain which technologies will dominate over time, and so have taken a portfolio approach to managing their clean-energy R&D investments. The realities of the economic downturn have affected the clean energy industry more than expected, and governments under the strain of large budgetary deficits are re-evaluating their support for renewable energy subsidies.

The transition will depend in large part upon the innovations of the leading players in the energy industry, and the demand is such that the size of the prize is significant. The development of clean energy technologies has the potential to be a profoundly disruptive force in the industry, creating opportunities for new entrants to seize market share, and for existing players to consolidate and extend their positions.

- **The search for efficiency and cost savings.** Global energy companies have been confronted by the realities of the economic downturn. With falling demand in many developed markets, companies have turned to cost reduction as a controllable element in maintaining profitability, increasing

their focus on the efficiency of production and refining, and in their downstream operations. Even for those companies in the emerging markets, where growing demand for energy continues, cost management remains equally important as a route towards maintaining access to capital for further investment and growth.

The drive for cost savings through efficiency gains demonstrates one way in which sustainability objectives are becoming more closely aligned with the fundamentals of core business, and how environmental performance will increasingly be reflected in the core metrics of business success.

- **Growing regulatory uncertainty.** Although general commitments have been made at Copenhagen and Cancún, the outcome of both conferences underlines the need for further negotiations among countries. Climate change retains its importance as a global issue, but the pace of implementation of new climate change regulations has slowed in a number of countries. In addition, although there has been some strong support for clean energy initiatives from many countries adopting subsidization schemes, the recent economic turmoil has had a negative impact on the industry with many countries scaling back incentives.



The lingering uncertainty over national and international energy policy creates challenges for companies seeking to invest in clean energy as they try to calibrate their investments to shifting policy frameworks. Such uncertainty will raise the importance of active engagement and collaboration with governments in order to shape a regulatory landscape conducive to investment in new technologies and supply.

- **The challenge of future talent.** Energy companies face an intense, ongoing need for top talent, especially in the engineering fields. Most companies see the average age of the workforce increasing, and face the loss of critical talent through retirement in the coming years. Ensuring that a fresh supply of talent is available will be critical to delivering the scale of proposed energy investments across the globe. Developing countries are also conscious of the need to up-skill their domestic workforces. In some Western nations, traditional oil and gas companies face a perception problem among younger workers, who may perceive such companies as a threat to sustainability rather than part of the solution, and who thus are less inclined to pursue careers there.

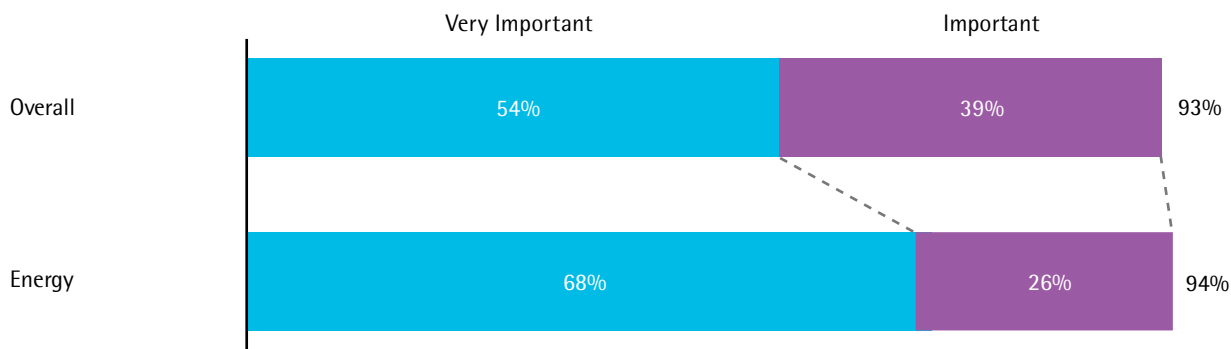
On the other hand, the renewable energy sector is enjoying a burgeoning interest by younger talent—so-called 'green collar' jobs, and a growing number of universities are offering programs to prepare graduates for careers in clean energy. For the time being, however, skills shortages exist and thus renewables companies need to be proactive in courting, developing and retaining talent.

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 Energy: 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)

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

CEO support for sustainability within the energy industry is strong. Ninety-four percent of the executives surveyed stated that sustainability issues are either "important" or "very important" to their future success. Looking deeper into the numbers, support for sustainability can be seen to be particularly strong in the energy industry. For example, 68 percent of energy CEOs, compared to the global average of 54 percent, stated that sustainability issues are "very important" to their future success, the highest of any industry in our study.

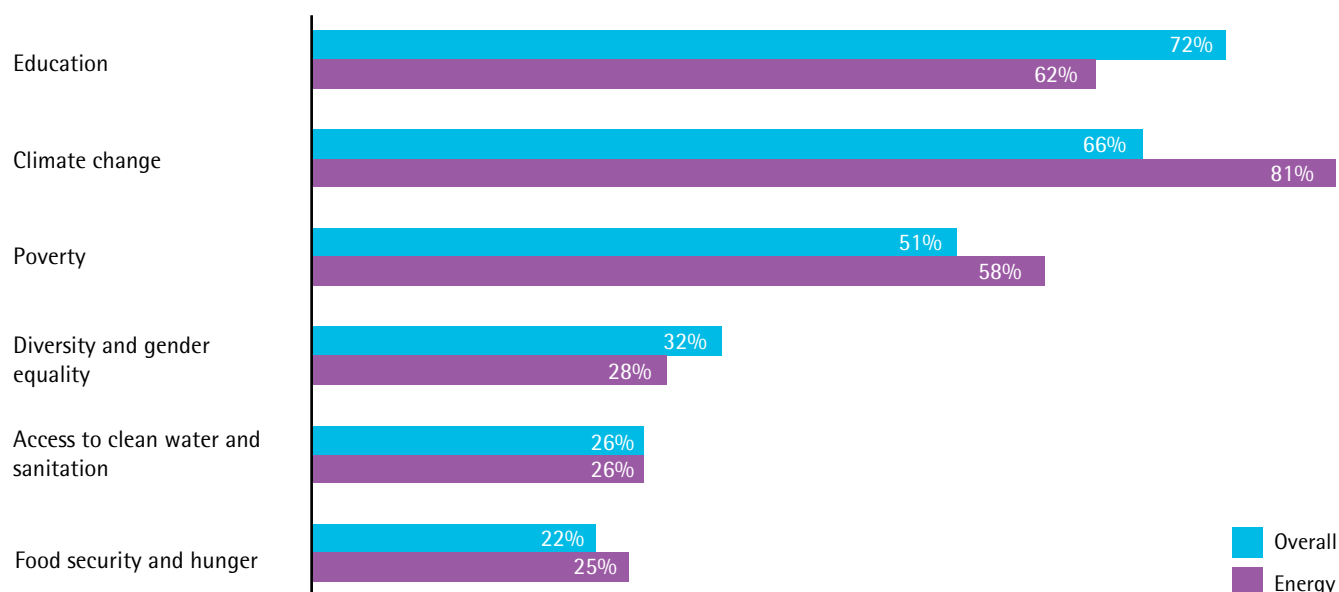
Interestingly, such support is even stronger among companies in emerging markets, where 80 percent of CEOs believe that sustainability will be 'very important' to their company's success. This finding may be counterintuitive to conventional wisdom, but may reflect what one business leader termed the 'lens of proximity'. Many emerging market companies are keenly aware of the need to engage in local development, both through building the required infrastructure for business and in promoting social development. These CEOs see sustainability issues as integral to their licence to operate, and fundamental to business success. Emerging

market CEOs may also perceive a greenfield opportunity in addressing growing energy demand, since sustainability considerations can be built into new energy systems from the beginning, and such solutions are increasingly the most efficient and cost-effective approaches.

We also see some important, if anticipated, differences in the attitudes of oil and gas executives compared with their peers in the renewables sector. A very high percentage of renewable CEOs—91 percent—rated sustainability as very important to business success, compared with only 62 percent of oil and gas CEOs. Our conversations with executives suggest that CEOs in the oil and gas sector may view sustainability principally as a disruptive influence within their industry, while those in the clean energy sector see advancing demand for sustainable solutions as a key opportunity and driver of growth.

The global economic downturn might have been expected to weaken the commitment to sustainability issues. In fact, support remains strong: 72 percent of energy CEOs believe the downturn has raised the importance of sustainability as a leadership issue for top management, and just 4 percent of energy CEOs report that their company has reduced investment in sustainability as a result of the downturn. This resilience suggests that CEOs no longer view sustainability as a marketing-led initiative peripheral to core business, but as an integral part of their plans for growth.

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)

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 the energy sector, CEOs join their peers from other industries in affirming climate change and education as the two most important development issues for their business. Indeed, climate change was named as the primary development issue by 81 percent of energy CEOs, well above the survey average of 66 percent, reflecting the centrality of climate change not only as a critical development issue but as an issue that will drive the future business landscape for energy companies.

The stakeholders believed to be most critical by energy companies also differed, perhaps not surprisingly, from peers in other industries. For 51 percent of energy CEOs, governments are the primary stakeholders influencing the sustainability agenda, compared with a 39 percent average

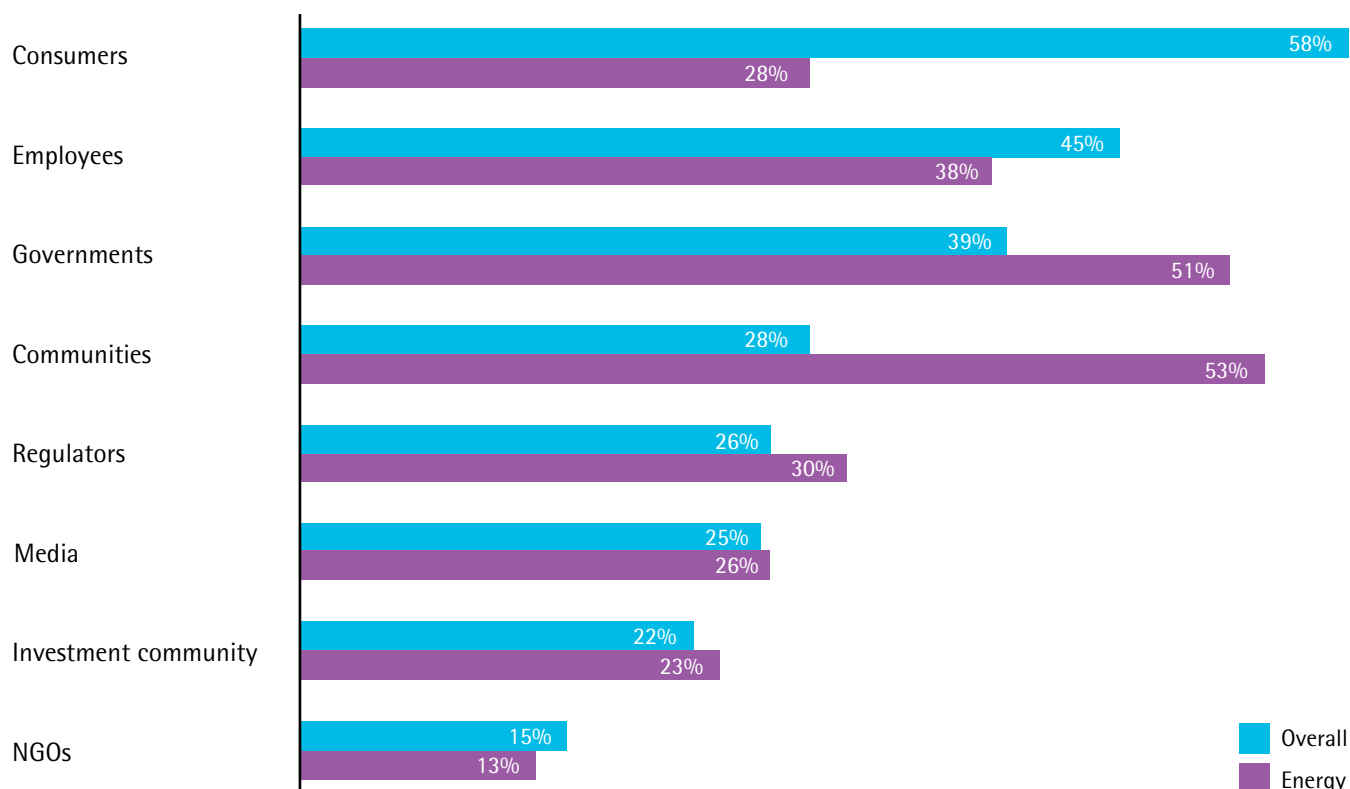
among all executives surveyed. The importance of the role of governments and regulators in driving sustainability in the energy sector is clear from our conversations with CEOs: while sustainability has long been a key strategic priority for energy executives, they see a critical role for governments in enabling their companies to make further progress in embedding sustainability into core business, through the clarify and consistency of regulation, and in providing the right investment incentives.

Communities were also mentioned as important stakeholders by a higher percentage of energy CEOs (53 percent, and 73 percent of those in emerging markets) compared to the survey average (28 percent), reflecting the importance of community relationships for energy and utilities companies, in issues ranging from securing a license to operate to local planning consent. This belief in the importance of communities was reflected by Paolo Scaroni, CEO of Eni S.p.A: "I strongly believe that our success depends on our capability to provide long lasting benefits to the communities which host us."

Motivating factors and opportunities

What are the primary motivators in moving sustainability up the list of corporate priorities in the energy industry? Energy CEOs see enhanced corporate trust and reputation as the most important factor. 'Brand, trust and reputation' was named by 70 percent of energy CEOs as an important factor. That such a large percentage of these companies cited the

Figure 2.3: 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)

reputational dimension of sustainability is striking, perhaps indicating the impact of recent events in the Gulf of Mexico, and a growing awareness of the industry's impact on the communities in which it operates, the growing impact of sustainable business operations on public perceptions of the industry, and a desire to be seen as 'part of the solution' to the challenges of climate change and social development.

Sustainability strategies aligned with business strategies

72 percent of energy CEOs believe that the downturn has prompted them to better align sustainability with core business. During this time of economic hardship, businesses have been forced to examine closely how their sustainability activity delivers hard business value, measured in terms such as cost reduction and revenue growth. For example, one-third of energy executives—and 44 percent of all CEOs surveyed—cited revenue growth and cost reduction as motivating factors in developing a sustainability strategy, an indication that the perception of sustainability's business value is changing in many respects.

From our conversations, energy companies are beginning to acknowledge the centrality of sustainability in their efforts to build a long-term future for the industry. As Wolfgang Rutenstorfer, CEO of OMV Aktiengesellschaft, told us,

"I regard [sustainability] issues as bringing competitive advantage in the long-term. In the short-term, perhaps we are not rewarded, but a transparent approach clearly oriented towards our values, human rights and environmental objectives is the only right approach that will be appreciated in the long term."

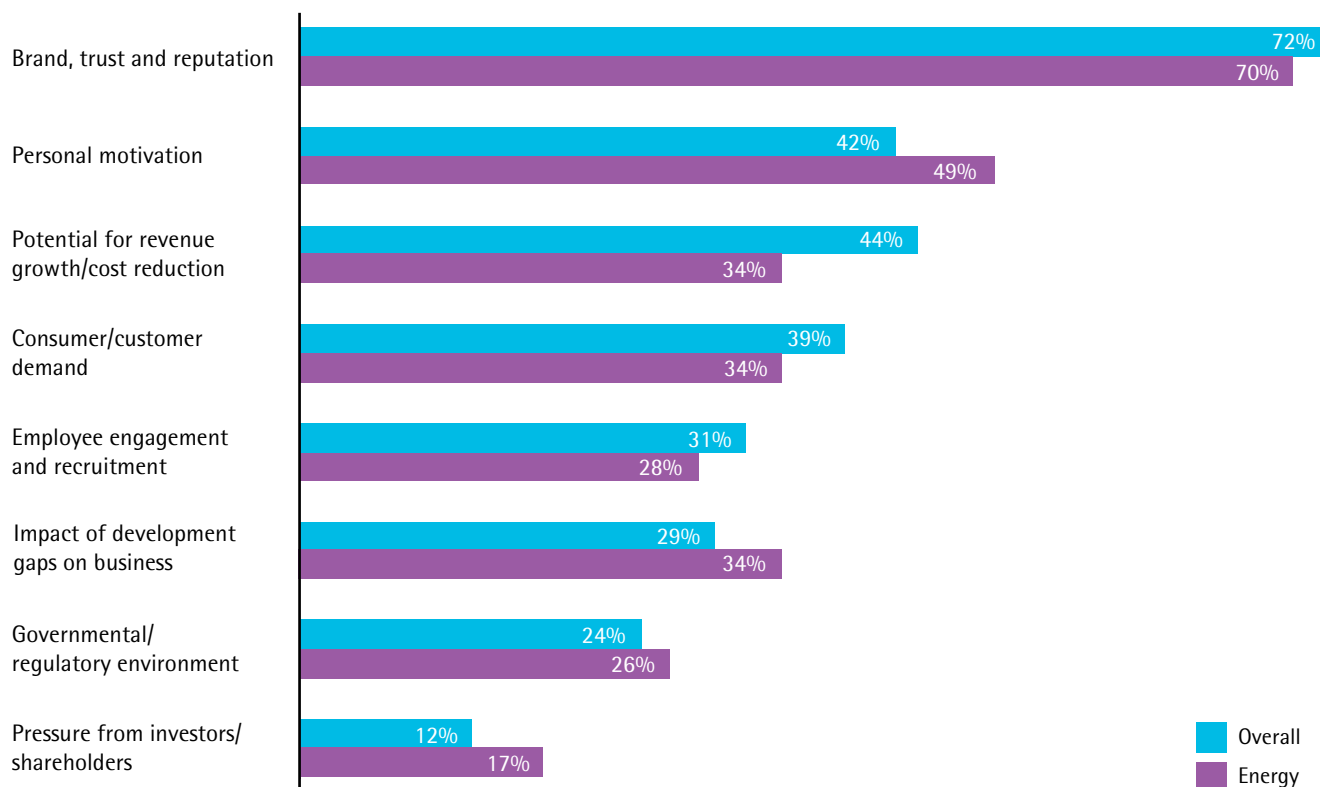
And, according to Steve Lennon, Managing Director of Eskom, a more holistic and comprehensive approach is also necessary. "Industry has never truly grasped that sustainability is about the totality of your business," Lennon said. "It's about your financial performance, your environmental performance, your social performance and your impact on the economy in which you operate."

The next era: Embedded sustainability

The CEOs in the UNGC-Accenture study were in broad 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 is fully embedded across a company's strategy and operations.

Extremely high percentages of energy executives believe in this integrated approach. Ninety-six percent of Global Compact CEOs from the energy industry believe, for example, that sustainability issues and approaches should be fully

Figure 2.4: 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)

integrated into their core business strategy, up from 72 percent in 2007. Ninety-two percent of energy CEOs believe sustainability should be embedded into the strategy and operations of subsidiaries; 94 percent believe in embedding sustainability throughout their global supply chains.

These numbers represent commendable aspirations—but how effective are energy companies at truly embedding sustainability in practice? Responses suggest that these organizations may be lagging a bit compared to other industries. For example, 68 percent of energy CEOs—compared to 81 percent overall—stated that sustainability issues are already fully embedded into the strategy and operations of their company, although this may represent a more realistic assessment of what 'full integration' entails, and may in itself still represent a degree of overconfidence.

Reaching a tipping point

How long will it take before the majority of companies worldwide reach a new era in which sustainability is fully integrated across their global business footprint? Sixty percent of energy CEOs surveyed feel that this tipping point could be reached within ten years, an optimistic viewpoint that would have almost unthinkable at the time of the last study in 2007.

What factors will contribute to reaching that tipping point? High percentages of energy CEOs (92 percent) believe that the most important factor is having greater value placed on a company's sustainability activities by shareholders and investors. Following that, 87 percent believe in several other factors:

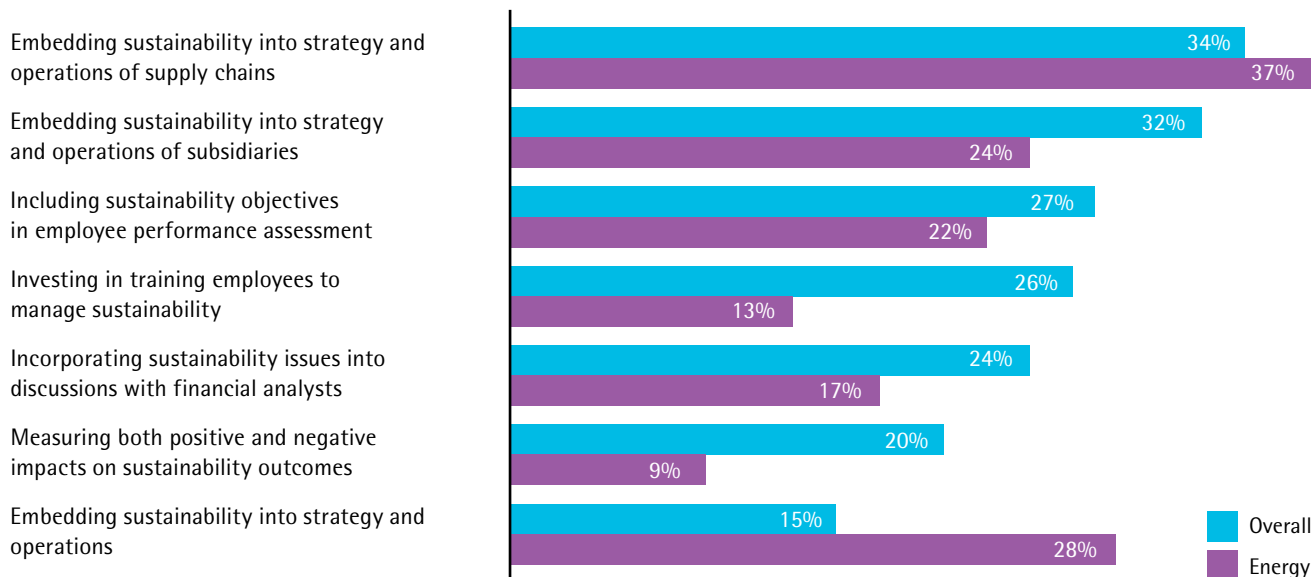
- Governments providing clearer direction and support for sustainability.
- Consumers demanding more sustainable products and services.
- Education systems and business schools capable of training a new generation of leadership to plan and manage sustainable businesses.
- Boards of Directors holding management accountable for sustainability objectives.

As this overview of the current state of the industry has shown, the mindsets of CEOs in the energy industry may be beginning to converge 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

Making progress: from strategy to execution

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)

The challenges ahead: Closing the performance gaps

As detailed in the full UNGC-Accenture report, CEOs are aware that, for the most part, truly embedded sustainability is a vision of the future, not a description of the operations and strategy of most companies today. The challenge in reaching the new era is one of execution.

Although, as we have seen, the ambition to embed sustainability into core business among Global Compact CEOs in the energy industry is nearly universal, these executives see a significant challenge in executing a sustainability strategy. Our survey 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 mindset 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 96 percent of energy executives say that sustainability issues should be integrated into strategy and operations, only 68 percent say such integration exists in their company. Ninety-two percent say that sustainability should be integrated into a company's subsidiaries, but again only 68 percent have achieved such integration. Similarly, 94

percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, yet only 57 percent are confident they have achieved that kind of scope.

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

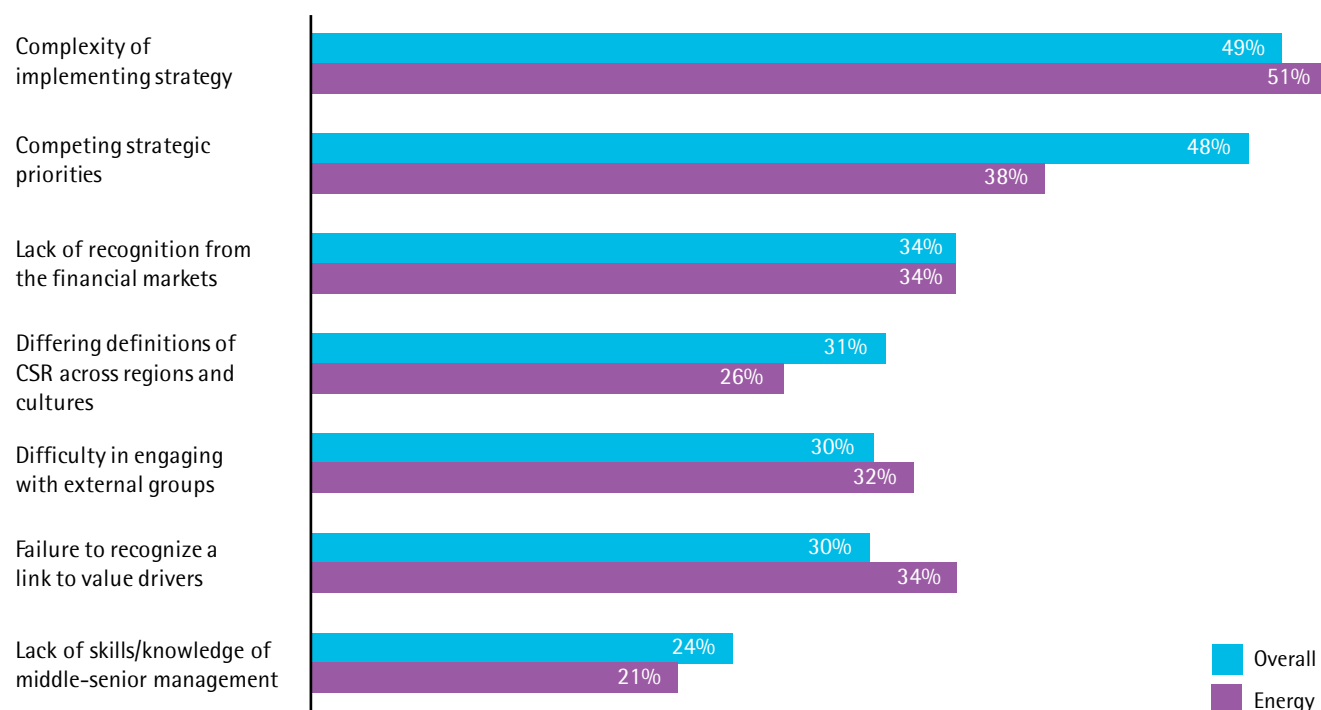
Internal challenges

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, "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

Energy CEOs report that their most significant barrier to an integrated, company-wide approach to sustainability is the complexity that accompanies implementation across different functions. Fifty-one percent of energy CEOs name this as their top challenge. Rising concerns about complexity may demonstrate how CEOs are shifting their sustainability focus from strategy-setting to execution, and encountering the challenges that such execution presents.

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)

Competing strategic priorities

Thirty-eight of energy CEOs (compared with 48 percent in the general survey) report that competing strategic priorities are a significant barrier to the implementation of sustainability issues. This highlights the challenges of reconciling the need to take a long-term perspective on sustainability issues with a turbulent market environment that often forces companies to make decisions based on near-term pressures. As Steve Lennon of Eskom 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 and that you cannot forget to deal with these matters on a long-term basis."

So although there is widespread belief in the strategic importance of sustainability issues among CEOs, executives are still struggling to address them as an integral part 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 may still be regarded as a separate or discrete strategy in itself, rather than being truly embedded across all corporate and functional strategies and business plans.

People and performance

Energy CEOs report challenges in instilling the right knowledge, attitudes, skills and behaviors to equip their people to manage sustainability as part of core business, and in shaping the supply of talent such that current and future managers are able to address sustainability challenges. Many companies are already engaging with this challenge, often through collaboration and partnerships, for example the Business in the Community (BITC) initiative on sustainability leadership skills in the UK.

Investing in employee training is one way to overcome internal challenges regarding the execution of sustainability strategies. Seventy-nine percent of energy CEOs say they are already investing in enhanced training of managers to address sustainability issues—a noticeably high number compared to the general survey average of 60 percent. To align employee performance with new strategic goals, 53 percent of energy CEOs are also including sustainability objectives in employee performance assessments.

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)

External challenges

In addition to 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 to sustainability. The most prominent of these, based on our discussions, relate to the role of business stakeholders—in particular, governments, regulators, investors and consumers.

Achieving more regulatory certainty

Energy CEOs expressed a need for clearer regulatory and policy standards, especially regulations that helps companies unwind the complexities of international markets, but see a danger of 'knee-jerk' regulation hampering the efforts of business to find the proper balance between business and societal value.

Just 45 percent of those in the oil and gas sector – compared with the survey-wide average of 60 percent – report that they would welcome increased government intervention in the market to drive sustainability. By contrast, 82 percent of clean energy CEOs report that they would welcome increased government intervention, perhaps demonstrating the role of government regulation in driving demand for new technologies, and in creating the business case for investment.

CEOs also spoke about the challenges of country-specific versus international regulation. Global markets demand global solutions to create a more level playing field for multi-national corporations. In this regard, government involvement can be a welcome factor, especially since global expansion may be necessary for continued viability as international energy companies pursue new energy sources and new waves of demand. According to one European business leader, “One has to look towards new geographic markets in which to invest, and look for added-value possibilities in taking energy efficiency to customers.... The carbon price is now absolutely embedded in our calculations for European countries; for countries that may fall under European regulations in the future it's more complicated.”

Engaging the investor community

In the opinion of many executives, mainstream investors are a critical part of the sustainability picture, but mostly absent at the moment. In our conversations with CEOs, a common refrain related to the lack of interest in or understanding of sustainability activities from investors and analysts, beyond 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 23 percent of energy CEOs identify the investor community as one of their most influential stakeholders over the next five years. As one European business leader told us, "The real pressure, which isn't there at all, [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. However, CEOs recognized that the power of financial markets, if harnessed, could perhaps be the strongest driver towards companies around the world integrating sustainability into core business. 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."

Understanding consumer and customer demand

A critical question on the minds of CEOs today is to what extent consumers are prepared to accept the trade-offs of potentially higher prices, or the collection of personal data through smart metering, in exchange for more sustainable energy and water supply. One recent Accenture research study, based on surveys of more than 9,000 consumers in the energy sector, highlighted that although the vast majority of consumers would be prepared to switch energy providers if they offered products and services that helped to reduce carbon emissions, most would also demand savings on their bills.¹

Consumer education and communication with regard to sustainability will be key to success. Sustainability metrics are hard for the consumer to interpret and contextualize, and companies will be expected to demonstrate relevant and tangible personal benefits to the individual consumer: cost savings, local employment and reduced carbon emissions, for example.

A final consumer-related challenge is how energy companies are to solve the apparent paradox between their belief in the importance of sustainability – and consequently a move towards lower energy consumption – and their primary business purpose in encouraging people to consume their product and service offerings.

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 – 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 the energy sector show companies addressing 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 companies can overcome the challenges of integration, and shape the conditions that will be conducive to more sustainable companies operating in a future energy system founded on sustainable principles.

Shaping the energy future

Several industry pioneers we spoke with are piloting important pilot programs in order to begin diversifying supply and position themselves for new waves of demand. For example, when Eskom, the South African utilities company, decided to shift its energy generation mix towards renewable energy, it was responding to the pressures brought about by climate change and the future resource constraints that threaten its long-term growth. It also was acknowledging, at the same time, a significant opportunity to lead in a growth market. Traditionally a coal-dominated company, Eskom is now shifting its strategy towards renewables with the aim of reducing the amount of coal in its generation mix from the current 88 percent to 70 percent by 2025. In particular, it is investing heavily in concentrated solar power and wind farms with the help of a recent US\$750 million loan from the World Bank, allocated for renewable and energy efficiency projects.²

Iberdrola, the second largest utility in Spain and one of the largest utilities in Europe, is another industry innovator. The company has put a major focus on being the world leader in developing renewable energy plants. In 2004, the CEO made the decision to put sustainability at the core of Iberdrola's strategy. The Spanish utility sector was a large producer of greenhouse gas emissions at a time when green

energy was being promoted and the energy sector itself was being liberalized. The CEO saw this as a window of opportunity—the chance to make Iberdrola a world-leading green utility company. Two years after implementation of its new strategic plan, Iberdrola could already see the impact of renewable energies and combined cycle plants on its bottom line.³

Energy companies must find ways to make investments in new technologies as a way to cut costs and also drive growth. For example, OMV, an Austria-based integrated energy company, is facing a highly challenging business environment involving volatile oil prices. OMV has been committed in recent years to the successful development of new renewable energy sources and technologies while simultaneously improving its own operational efficiency.

The company is following a three-fold strategy to help reduce its carbon footprint and ensure a secure energy supply. First, its current core business of supplying fossil fuels is conducted in the most environmentally responsible and climate-friendly way possible. Second, the company is developing carbon capture and storage (CCS) technologies and projects as an interim solution as it seeks to pursue renewable energy sources.

Finally, OMV is actively expanding its renewable energy activities. One way the company is supporting this work is by launching “The Future Energy Fund,” an organization that promotes the development of new business opportunities and technologies for OMV in the renewable energy field, the acquisition of knowledge and experience in the renewable energy field, and the achievement of reductions in greenhouse gas emissions. Through this work, OMV has significantly reduced its greenhouse gas emissions through increased efficiencies and new renewable sources of energy. It has increased investments in the development of new energy sources, and it is helping to secure long-term fuel supply and security.⁴

Rebuilding trust

CEOs in the energy sector believe that rebuilding trust will be an essential element in securing the transition towards a future energy system founded on more sustainable principles. Part of their efforts to rebuild public and stakeholder trust centre on efforts to measure, track and communicate the impact of the industry on the economic, environmental, social, and governance dimensions of their activities. Leading industry players such as BP, ENI, Petrobras, Shell and Statoil are collaborating with the Global Reporting Initiative (GRI) to develop a sector-specific supplement to the G3 guidelines on sustainability reporting principles

and performance indicators. Release of the supplement is targeted for late 2011, and will mark an important stage in the industry's efforts to standardize sustainability reporting across the industry and communicate relevant metrics on the environmental and social impact of their operations.⁵

Collaborating with governments and regulators

Efforts to rebuild trust with governments and regulators will also play an important role in securing the collaborative efforts required to shape the future energy landscape. Investments in clean energy, smart grids and other new technologies demand a clear and predictable regulatory landscape if companies are to accurately assess potential returns. If companies are to interest investors and innovators in the transition, much will depend on effective relationships with regulators, to increase clarity over the future direction of energy policy.

Already, energy companies are banding together to increase their influence and their ability to share ideas. For example, the GridWise Alliance is a coalition of more than 150 companies across the energy supply chain—from energy companies and utilities to large tech companies, venture capitalists to emerging tech companies—that has joined

together to transform the electric grid for a more sustainable future. The variety of stakeholders gives the Alliance a unique diversity of perspectives which enables interactive dialogue between members, and a more effective engagement with governments and industry regulators.⁶

Addressing new waves of growth

Efforts to diversify supply and meet new waves of demand are placing new demands on energy companies to engage with local communities, and be seen to contribute to social and economic development in the communities in which they operate. Chevron, the multinational oil company, focuses on three areas of outreach: economic development, health and education. Through social investment in local communities, Chevron aims to contribute to social and economic well-being while securing the long-term success of the company.⁷

Similarly, Statoil has invested significantly in developing local capabilities in Angola, the largest contributor to the company's production outside Norway, yielding 37% of total international oil and gas output in 2009. Through projects focussed on building skills, developing local infrastructure and promoting awareness of environmental issues, the company are seeking to unlock the potential of local workforces in order to create a long-term sustainable relationship.⁸



Securing future talent

An ageing workforce, combined with reputational issues that may colour the perceptions of graduates entering the workforce, creates a significant challenge for energy companies – particularly in the oil and gas sector – in securing the talent required to ensure their future competitiveness. In the energy sector, the need for highly skilled engineering talent is paramount and with many of the experienced staff nearing retirement age, ensuring an adequate number of engineers and technicians to deliver the scale of proposed energy investments across the globe is a critical issue.

Many employees, particularly new graduates now count commitment to sustainability among their closest-held values, and research suggests that a potential employer's sustainability performance is rising up the list of criteria on which new entrants to the workforce determine their employment decisions. While the renewable energy sector is attracting employees to 'green collar' jobs, which is attracting large numbers of new talent to the industry, oil and gas companies face a challenge in communicating the role that the sector can play in addressing sustainability challenges. Leading companies are already engaging new talent through social media such as Facebook or Twitter, building their attractiveness to potential recruits through a focus on sustainability and social responsibility.

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

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.

1. Create a clearer and more positive regulatory environment

Example business actions

- Engage with governments to adopt collaborative approaches to shaping regulation
- Develop industry standards that preempt formal regulation and create new forms of collaborative governance

In order to overcome the challenges presented by regulatory uncertainty, build trust and provide a more informed basis for policymaking, businesses can adopt a more proactive and collaborative approach with governments and regulators.

The centrality of government policy in setting the direction of the energy industry demands that companies engage with regulators in order to shape future policy. As we have seen, a commonly-cited barrier to further investment in sustainability is the lack of clarity over future regulation, and closer collaboration could allow companies to be involved in policy making, reducing the risk of unintended consequences of regulation and allowing a greater insight into the future direction of the industry.

Collaborating effectively to shape a future energy system will require efforts on the part of energy companies to rebuild the trust and confidence of national governments and regulators. A renewed emphasis on integrity and security may ease this process, and it is clear that business must have a constructive role to play in climate negotiations, beyond lobbying focussed on specific industry objectives.

The development of a more sustainable energy future will be challenging and complex, but at its heart will be a more trusting and collaborative relationship between public authorities and the energy companies charged with addressing new waves of demand whilst managing sustainability objectives from environmental issues to social and economic development.

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

High numbers of energy CEOs—89 percent—identified the role of educational systems and business schools in developing the mindsets and skills needed for future leaders to address sustainability as critical to reaching a tipping point in sustainability.

Energy companies face distinctive challenges when it comes to talent. As many companies face a loss of experienced workers in the coming years, companies face significant challenges in developing the skills required for future competitiveness. This trend could also be seen, however, as an opportunity to shape the knowledge, attitudes and mindsets of the next generation of employees and managers. This phenomenon is especially apparent in the emerging markets, particularly in India and China, where educational institutions are training large numbers of highly-qualified engineers well versed in sustainable thinking and the drive towards renewable energy. The potential talent imbalances within the industry could have a significant impact on the competitive advantage of those companies able to embed the right knowledge, skills and attitudes for their people to manage sustainability effectively.

Based on our conversations, CEOs see education as critical to the success of their business. 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. Second, executives especially believe that education of a new generation of managers should focus not only on those skills needed to embed sustainability in their day-to-day roles, but on the broad set of skills needed to partner with a more extensive ecosystem of partners, both cross-industry and cross-sector.

Although businesses believe that formal educational institutions and business schools need to do more when it comes to sustainable education and the development of more relevant skill sets, they also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders. Seventy-nine percent of energy CEOs say they are already investing in enhanced training of managers to address sustainability issues—an extraordinarily high number compared to the general survey average of 60 percent. However, just 53 percent of energy companies report that they include sustainability objectives

in employee performance assessment, suggesting that sustainability may not yet be truly embedded in the roles and responsibilities of their people.

It is clear that CEOs see a more prominent role in the future for sustainability performance in recruiting talent. Creating a business that is both sustainable and profitable requires efforts by people at all levels of the corporation; thus, engaging employees in the sustainability agenda is vital to success. Although the link between employee engagement and productivity may be difficult to quantify in financial terms, there are many examples where performance on sustainability issues is leading to higher employee retention rates. Better retention can, in turn, reduce the cost of recruitment and retraining and can protect a company against the loss of corporate knowledge and experience—as noted, something critically important to the energy industry.

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. Ninety-two percent of CEOs in the energy sector see the “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 may be a grain of truth in companies’ complaints that the investment community may not fully understand the value of sustainability activities, it is equally true that many companies do not do enough to communicate and engage investors in the impact of their sustainability activities: just 62 percent of energy 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, 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 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 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. Actively shape consumer attitudes and needs to create a market for sustainable products

- Measure and communicate environmental and societal impact of operations
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts

Many of the energy company CEOs in our survey—87 percent—believed that a critical moment in reaching the tipping point in embedded sustainability would come when the majority of consumers demand products and services that address sustainability challenges.

Whilst the role of the consumer in shaping energy companies' response to sustainability challenges may be unclear, many companies with which we spoke are already looking to shape consumer tastes and preferences for sustainable products and services. Duke Energy, for example, actively participates in consumer and investor education in such ways as publishing an annual sustainability report that summarizes its efforts to reduce its environmental footprint, develop next-generation energy technologies and operate as a more sustainable business.

Engaging consumers in their efforts to shape a more sustainable industry will be key to companies' efforts to build trust in the industry and in their individual companies – and those companies who can truly engage their consumers are likely to hold a competitive advantage in an era of greater transparency.

Figure 5.1: Creating the conditions for a new era of sustainability

Enabling conditions

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

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

Example business actions for energy companies, based on CEO interviews

- Engage with governments to adopt collaborative approaches to shaping regulation.
- Develop industry standards that preempt formal regulation and create new forms of collaborative governance.
- 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.
- 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.
- Measure and communicate environmental and societal impact of operations.
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts.

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. Understanding this reality will help businesses take important steps towards 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.

As leading energy companies seek to shape the transition towards a future energy system and a more sustainable industry, the challenges will be both pressing and complex. Securing future competitiveness will depend not only on traditional factors such as efficiency and cost control, but on forging new, more collaborative relationships with customers, governments, regulators and other stakeholders, to address new waves of demand whilst managing environmental and social impacts.

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' in the transition to a more sustainable economy. Aligning markets and sustainability outcomes will require constant renewal and adaptation from businesses themselves and in collaboration with others, but success will increasingly depend on companies' ability to contribute to social and economic development: as Paolo Scaroni, CEO of Eni S.p.A., told us: "Sustainability is an integral part of doing business, and the success of companies in the long term depends on them being able to create opportunities for development in the communities in which they operate."

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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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.

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