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United Nations Global Compact

UN Global Compact-Accenture CEO Study

Towards a New Era of Sustainability in the Infrastructure & Transportation Industry

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Foreword

There has perhaps never been a better moment to contribute to the debate about how, as we look to economic recovery following one of the most tumultuous periods in our history, we can start to rebuild the global economy in a sustainable way.

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

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

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

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



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Executive Director
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Introduction

Sergio Colella 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 more than 50 business and civil society leaders—represents the largest such study of CEOs ever conducted on the topic of sustainability. The study included a representative sampling of 58 major Infrastructure & Transportation Services (I&TS) companies around the world, and interviews with CEOs in I&TS and parallel industries, including Enel, Eskom, Iberdrola, National Grid, Qatar Airways and Siemens.

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

Beyond their individual companies, too, CEOs believe that much will be required to shape a landscape conducive to more sustainable business. It is readily apparent that uncertainties regarding consumer demand, investor interest in sustainability and future government regulation must be clarified, and that a new debate will be required to articulate new concepts of value and make the case for the benefits 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 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 infrastructure and transportation industries, and we hope that this is a timely and useful contribution to advancing sustainability in the sector, with a unique insight into the views of CEOs and global leaders on what it will take to reach a new era of sustainability.

Handwritten signatures of Sergio Colella and Peter Lacy in black ink.

Executive Summary

The sustainability landscape is changing

Since the last UN Global Compact CEO study in 2007, CEOs' views on sustainability have undergone a fundamental change. Business leaders worldwide, including those in the Infrastructure & Transportation Services industry, now see sustainability – those environmental, social and governance issues covered by the UN Global Compact's Ten Principles – as central to their business: 98 percent of the I&TS CEOs we surveyed, and 93 percent of CEOs overall, believe that sustainability issues will be important to the future success of their business.

As CEOs perceive ever-greater links between business performance and their sustainability capabilities, it is clear that the environmental, social and governance issues at the heart of a sustainability strategy are featuring higher on the executive agenda. In our conversations with CEOs, we have seen how sustainability is increasingly seen as a key element in how many companies respond to core strategic challenges. Many CEOs within the I&TS industry are beginning to see sustainability as a top-line opportunity—and most companies appreciate the cost reduction benefits. As the industry is becoming ever more competitive there is a huge emphasis on lean operations & manufacturing and other operational improvements supporting efficient services and production.

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 71 percent of I&TS executives.

However, CEOs often assume that their own company is more respected and trusted than their industry in general—leading to a real concern that executives may underestimate the extent to which mistrust is affecting their business personally. For example, 79 percent of I&TS executives believe their company is trusted, but only 67 percent believe their industry as a whole enjoys that same level of trust.

CEOs recognise that a commitment to sustainability will play a critical role in shaping public perceptions of business – and that actively building trust among stakeholders will increasingly be a route to competitive advantage.

The drivers and approaches to sustainability are changing

I&TS CEOs identify education and climate change as the two most important development issues for their business, a finding that echoes that of the general survey. Climate change is especially important: two-thirds of I&TS executives rated it among their top three most critical development issues.

I&TS CEOs may tend to see the sustainability agenda primarily as a matter of the environmental impact of emissions. Broader social and governance issues have been slower to take hold; there remains some scepticism among some companies as to whether sustainability strategies can have an effect on core business metrics: for example, only 36 percent of CEOs in the sector have been motivated to take action on sustainability issues based on their potential to drive cost reduction and revenue growth.

Leading companies in the sector, though, are beginning to appreciate new links between sustainability and the fundamental metrics of core business. As business-to-business customers and end users demand better environmental performance, and companies' commitment to sustainability becomes a differentiating factor in securing a licence to operate, CEOs believe integrating sustainability throughout their strategy and operations will be critical to success.

Challenges to overcome: From strategy to execution

Our study found widespread agreement among CEOs about what a new era of sustainability would look like: it is one where sustainability is not a separate strategic initiative, but something fully integrated into the strategy and operations of a company. CEOs believe the ideas and commitment are there, at least amongst leaders in the sector, but that execution of those ideas is now the real challenge to bringing about the new era of sustainability.

Confidence among business leaders about their progress 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. Our analysis and experience, however, suggests that this confidence may not be fully justified, or may be evidence of 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). Similar performance gaps were found to exist in the I&TS industry. Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains a somewhat distant goal for many companies.

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 (45 percent in the I&TS industry) feel that this tipping point is within a decade away—and 80 percent (76 percent in I&TS) believe it will occur within 15 years—an optimistic view unthinkable in 2007 and testament to the change taking place.

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

However, CEOs see that progress 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:

- **Investor uncertainty:** Many CEOs believe that the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor performance on sustainability issues into valuation models.
- **Consumer uncertainty:** The consumer may be king when it comes to driving profitable sustainability, but the CEOs surveyed are looking for clearer signals that sustainability actually drives buying behaviors. Similarly, they are unclear as to the extent to which sustainability concerns will drive purchasing decisions by businesses and governments.
- **Regulatory uncertainty:** Across the board, CEOs spoke of the need for greater clarity around the shape and scope of future regulation in response to regulatory challenges.



Accelerating the tipping point: Business action is needed

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

- 1. Actively shaping consumer and customer awareness, attitudes and needs.** To create a market for sustainable products and services, CEOs see the need to increase the provision of consumer information and set clear standards, as well as direct government incentives and investment in areas such as energy, transport and public infrastructure. CEOs see an onus on infrastructure companies to measure and communicate relevant information to customers and end users on their environmental performance.
- 2. Generating new knowledge, skills and mindsets for sustainable development.** Although businesses believe that formal educational institutions and business schools need to do more, CEOs also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.

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

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

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

CEOs in the Infrastructure and Transportation Services sector, along with their peers from all industries around the world, are willing to step up to the challenges ahead. They recognize that our current period is 'the end of the beginning' and not 'the beginning of the end' in the transition to a new era of sustainability.

**CEO opinion:
by the numbers**

**58 CEOs in the
Infrastructure
and
Transportation
industry, from
35 countries**

89%

89% of I&TS CEOs believe that sustainability issues will be critical to the future success of their business.

93%

93% of I&TS CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

71%

71% of I&TS CEOs cite 'brand, trust and reputation' as one of the top three factors driving them to take action on sustainability issues.

52%

52% of I&TS CEOs identify consumers as the most important stakeholder group that will impact the way they manage societal expectations.

84%

84% of I&TS CEOs see 'accurate valuation by investors' of sustainability as important to reaching a tipping point in sustainability.

53%

53% of I&TS CEOs cite complexity of implementation across functions as the most significant barrier to embedding sustainability.

62%

62% of I&TS CEOs see education as the global development issue most critical to address for the future success of their business.

84%

84% of I&TS CEOs believe that companies should integrate sustainability through their supply chain; only 50% believe that their company has done so.

93%

93% of I&TS CEOs report that their company will employ new technologies to address sustainability issues over the next five years.

Part One

Background and Industry Context

In the course of our survey and conversations with CEOs, we have witnessed a fundamental shift since the last Global Compact study 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 strategic priorities, sustainable business practices and products are opening up new markets and sources of demand, driving new business models and sources of innovation, changing industry cost structures, and beginning to permeate business from corporate strategy to all elements of operations.

In an era when sustainability has been steadily rising up the corporate agenda, environmental issues have long been of fundamental importance to the existence of companies engaged in infrastructure, transportation and the built environment. More recently, as the rise of smart buildings and 'intelligent' infrastructure has begun to reshape demand from governments, business-to-business customers and end users, sustainability has become an ever more critical part of these companies' route to success.

As the industry responds to new waves of demand for sustainable urban growth founded in intelligent infrastructure projects, leading companies have an opportunity to set the pace for others in embedding sustainability throughout strategy and operations, as well as supply chains and subsidiaries. In this way, the infrastructure sector can multiply the benefits they deliver to customers and end users, moving from mitigation and environmental efficiency towards new ideals of positive social impact and true eco-effectiveness.

One of the clearest insights from our conversations with CEOs in the sector is that they see sustainability as a critical – and potentially disruptive – trend in the industry. In responding to new demand, adapting existing infrastructure to today's challenges, and in securing their licence to operate and innovate, leading companies believe that sustainability will play a crucial role in creating competitive advantage and differentiating the winners of tomorrow.

Beyond the industry's traditional concerns of emissions reduction and climate change, it is clear that sustainability concerns are beginning to permeate every aspect of business – when one looks at the key strategic imperatives in the industry, it is readily apparent why CEOs attach such importance to sustainability:

Achieving profitable growth in new geographies while strengthening business in domestic markets

Accelerating growth and urbanization in the emerging economies presents enormous opportunities for companies in the infrastructure sector. Public and private sector investments are providing new sources of profitable growth for infrastructure players since they involve large-scale innovative applications of new technologies. However, building brand and reputation in these markets will be critical to success: building on an existing customer base and on relationships with governments and local authorities will play a crucial role in positioning companies to profit from new waves of growth. Traditional industry leaders must also be aware of the growing competition from the emerging markets: as the experience built in rapidly growing and urbanizing emerging markets is transferred overseas, new entrants are changing the face of global competition.

Adapting strategies and business models to gain optimal positioning in the infrastructure value chain

Infrastructure programs are becoming larger and more complex: many customers are looking to address comprehensive programs with a single supplier. However, single players rarely have the expertise to manage complex projects alone, and as such collaboration with multiple vendors will increasingly be a core management competency in the industry. This represents a dramatic disruption in traditional industry structures and value chains, as infrastructure players increasingly need to be able to offer vertically-integrated solutions to provide customers with packages including both products and services, as well as horizontally-integrated solutions to provide customers with end-to-end packages across numerous functional and technical areas.

Fostering engineering expertise to provide the marketplace with customer-centric solutions

Understanding and serving customers in the industry is a complex matter, since infrastructure and transportation solutions may have a corporate or governmental buyer, but the ultimate user of the solution is an everyday consumer. For example, a railway car is produced for an enterprise, but the success of the product will also be measured in terms of its suitability—comfort, design, etc.—to the consumer riding in it. This dual mindset requires broader and deeper engineering expertise, and an awareness of the changing priorities of both enterprise and government customers and the end consumer – on environmental performance, for example.

Managing increased risks to design, build and operate complex infrastructure programs

As the scale and scope of infrastructure projects increases—and, as noted, as a single supplier is often given responsibility for overseeing complex programs—risks increase accordingly. In addition to delivery and operational risks, there are also increased financial risks: governments themselves may be investing less in infrastructure projects, and will instead leverage public-private partnerships, which give I&TS companies more responsibility, increasing the need for effective risk mitigation approaches. Companies must also navigate the world of changing laws and regulations over the course of a long-term development project.

Combining cost-efficient processes with strong entrepreneurship and innovation

The combination of increased competition and a resource-constrained world means that infrastructure companies must continuously look for ways to reduce costs, while still maintaining the commitment to innovation and entrepreneurship that has always characterized engineering-based enterprises.

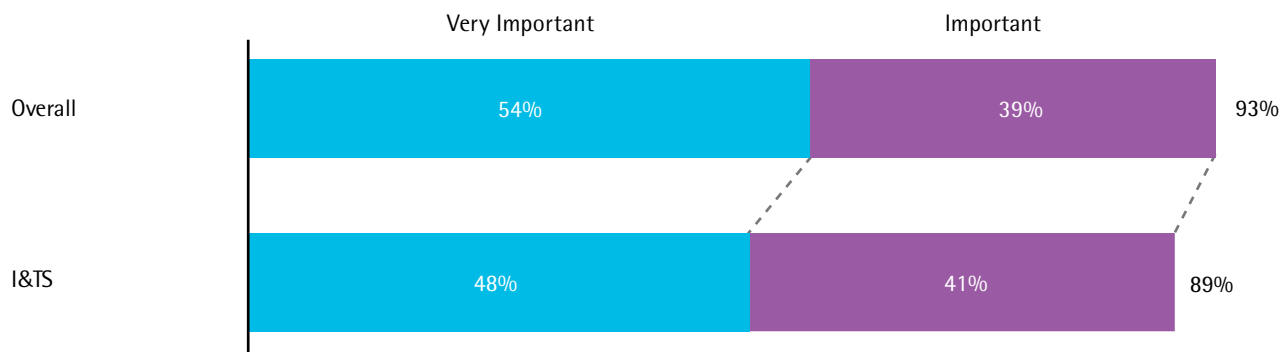
The growing importance of sustainability themes in addressing the key strategic challenges of the industry has resulted in the integration of sustainability becoming a core priority for leading I&TS companies, giving a sixth imperative: being proactive in the journey towards sustainability by infusing social & environmental responsibility in the entire value chain.

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 in Infrastructure & Transportation: 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)

CEOs' belief in the importance of sustainability is strong, despite the recent economic downturn

Eighty-nine percent of the executives surveyed within the infrastructure & transportation services industry affirmed the importance of sustainability to the future success of their business—a number about equal to the global, cross-industry figure of 93 percent.

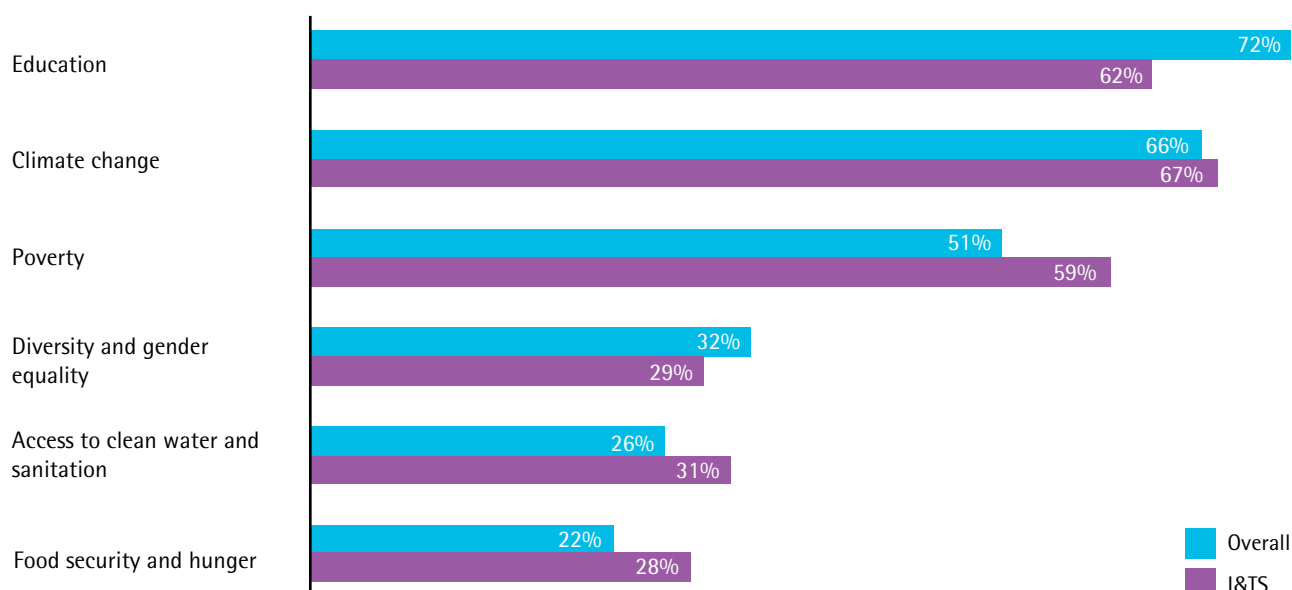
Looking deeper into the numbers, however, it appears that sustainability may not yet be the critical issue one might expect it to be, given the extensive reach and influence of the industry, and the importance of environmental and wider sustainability-related issues to the key strategic challenges in the sector. The percentage of CEOs agreeing that sustainability is 'very important' to their future success was 48 percent, a figure that lags not only the global, cross-industry average of 54 percent, but is also behind such industries as automotive (62 percent) and energy (68 percent). As CEOs' notions of sustainability broaden, though, beyond the reduction of direct environmental impacts and towards a pursuit of the opportunities presented by the transition to a low-carbon economy, these issues are steadily beginning to climb the corporate agenda.

An insight into the growing importance of sustainability to CEOs in the sector can be seen from the impact of the downturn. The global economic downturn might have been expected to weaken the commitment to sustainability issues. In fact, it seems to have done the opposite: 74 percent of I&TS CEOs believe that the economic downturn has raised the importance of sustainability as an issue for top management, and just 10 percent of I&TS CEOs report that their company has reduced investments in sustainability as a result of the downturn.

The breadth of sustainability issues is growing

It is clear from our conversations with CEOs that they recognise the potentially disruptive impact of sustainability on the industry, and that many are working to find new and innovative ways of addressing sustainability issues — but what do they mean by 'sustainability', and which issues are uppermost in their minds? The breadth and complexity of sustainability issues are growing, and companies making the most progress are working to align sustainability with strategy and link it more closely to business outcomes. 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.

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)

In the infrastructure and transportation sector, CEOs join their peers from other industries in affirming climate change and education as the two most important global development issues for their business: reflecting the critical importance of carbon emissions in shaping both demand and supply in the sector, and the need to ensure a steady supply of talent, particularly in the emerging economies.

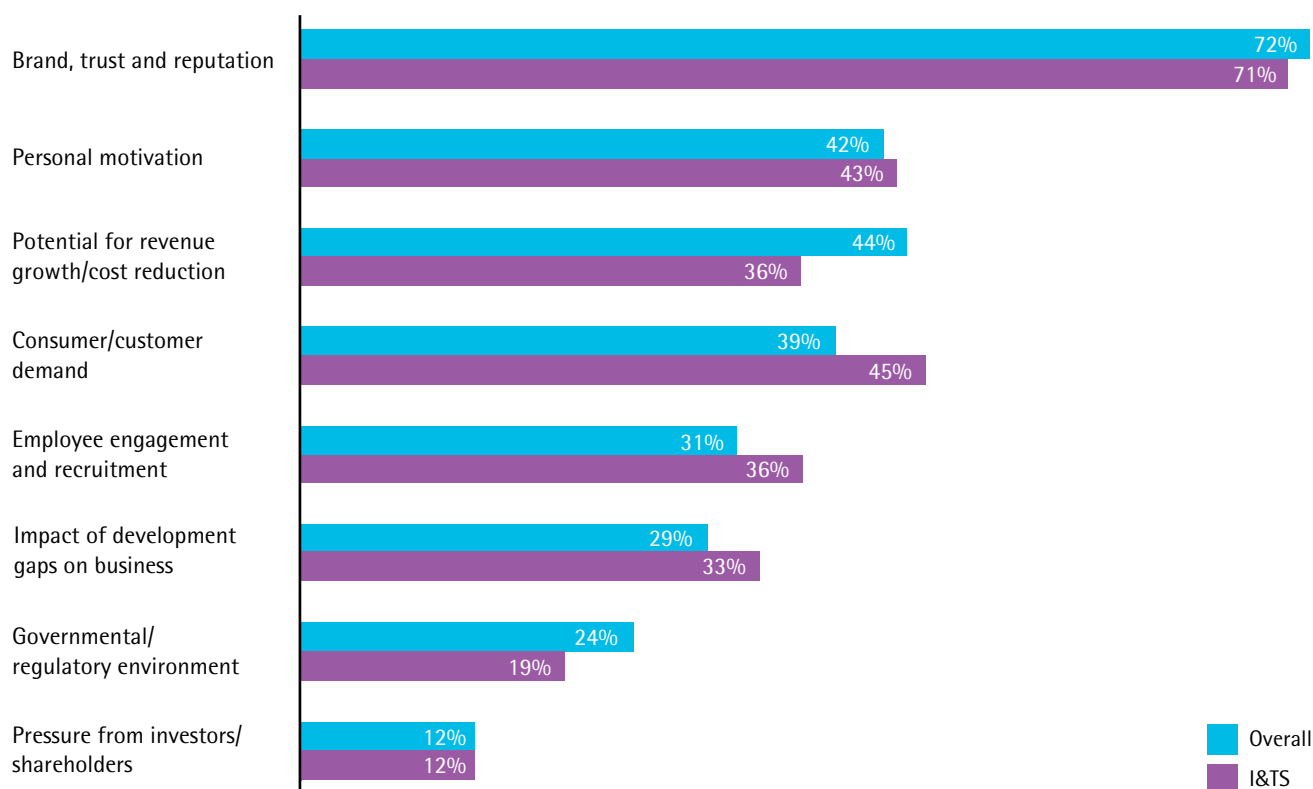
CEOs see enhanced reputation, reduced costs and improved efficiencies as the greatest opportunities of sustainability

The most commonly cited factor motivating I&TS CEOs to take action on sustainability issues is 'brand, trust and reputation', selected by 66 percent of executives as one of their top three factors. On the sceptical side, a focus on brand and reputational issues as the primary motivating factors could be seen as a reflection of 'traditional' sustainability—a marketing-led exercise only tangentially aligned to core business. However, this finding could 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 customers and end consumers.

In the wake of the downturn, many companies perceive a challenge in rebuilding trust with stakeholders, and in making the case for business's positive role in society: in the I&TS industry, where success depends on long-term, positive connections with enterprise customers and end-users, this challenge is all the more pressing. As I&TS 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. In the words of one leading European executive, "the sustainable behavior of companies is becoming more and more important: the public and the media are becoming much more sensitive to these issues."

Elements of a new approach to sustainability—that is, one driven by the fundamental metrics of core business—are visible in the other factors that leading companies cite as motivators in taking action in sustainability. Consumers are identified as the most important motivating stakeholder group for I&TS companies: 52 percent of executives named the consumer as one of their most important stakeholders in shaping their action on sustainability. The concept of brand management and the relationship with consumers is complicated in I&TS, since in most cases the end-consumer may not know what company is behind a major infrastructure project, or who actually manufactured a subway car. Nevertheless, the consumer exerts a powerful influence, and will ultimately – if indirectly – have a profound impact on the winners and losers in the industry.

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)

I&TS executives also strongly affirmed the role of the consumer in bringing about the new era of sustainability in which environmental and social issues are embedded in core business. Ninety-three percent of I&TS CEOs surveyed stated that a major element in driving the new era of sustainability will be when "a majority of consumers demand products and services that address sustainability challenges."

Sustainability aligned with core business

Signs of a rising sophistication in attitudes towards the business value of sustainability can be seen in several data points from the UNGC-Accenture study. For example, 72 percent of I&TS CEOs say that the downturn has led their company to align sustainability more closely with core business. During times of economic hardship, businesses are 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. Steve Lennon, Managing Director of Eskom's Corporate Services Division, sees sustainability

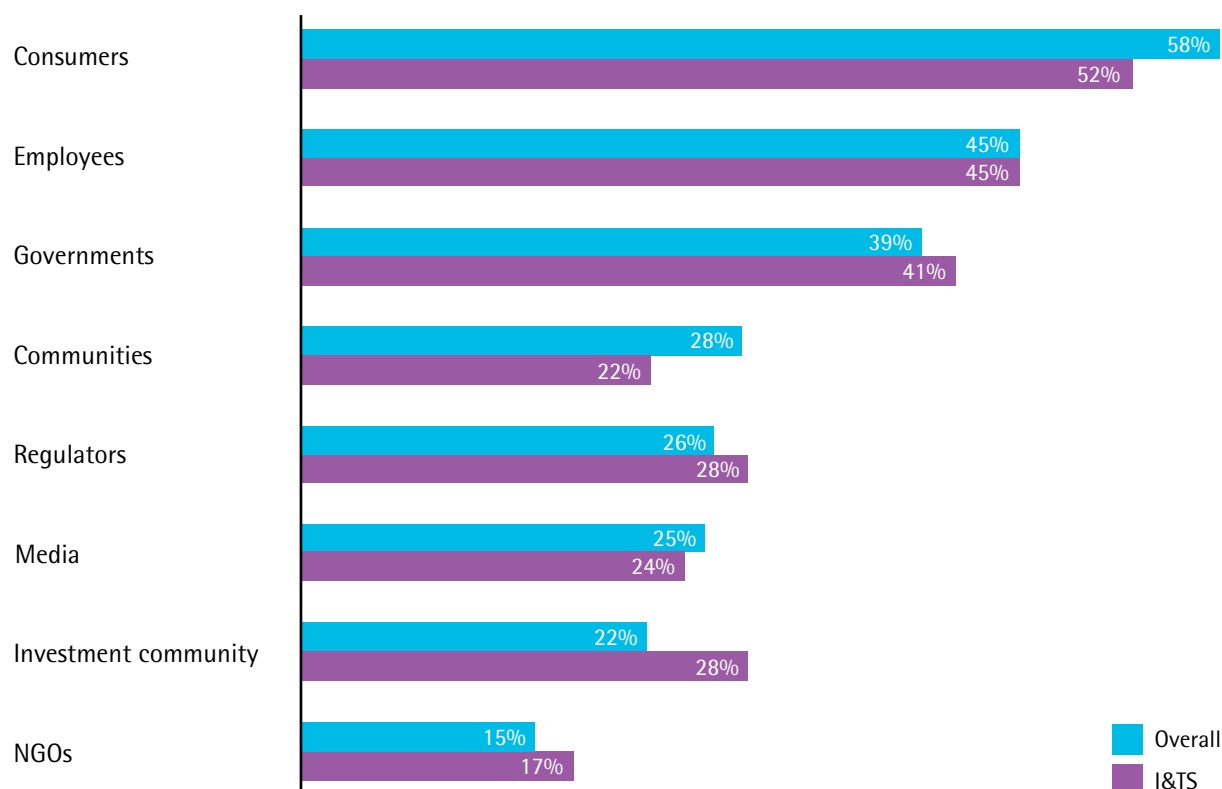
as part of a larger, integrated picture that includes multiple levels of impact: "Sustainability is about the totality of your business, it's about your financial performance, your environmental performance, your social performance and your impact on the economy in which you operate."

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 solutions with reduced environmental impact, or those which help public authorities and enterprise customers to reduce their own footprint, may prompt new waves of innovation. These developments can create a competitive advantage for those companies that can address new sources of demand, and differentiate their offerings on the basis of environmental performance.

The new era of alignment: Embedded sustainability

The CEOs in the UNGC-Accenture study were broadly in agreement on what a truly business-oriented approach to sustainability in a new era would look like. It is one in which sustainability is not simply one among many programs, but rather sits at the heart of a company's strategy and operations—an approach we term 'embedded' or 'integrated' sustainability.

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



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

Extremely high percentages of I&TS executives believe in this integrated approach. Ninety-three percent of industry CEOs believe, for example, that sustainability issues and approaches should be embedded in the strategy and operations of the company; 90 percent say these issues should be embedded in the strategy and operations of subsidiaries.

Ninety-three percent of I&TS CEOs also say that sustainability needs to be integrated into board-level decision making. For example, according to one European executive, "We have changed the incentives for our board and management, so in addition to traditional economic metrics they now incorporate additional criteria based on consumer and employee satisfaction. We're trying to move towards greater long-term thinking." Not surprisingly, 90 percent of I&TS CEOs affirmed that companies should embed metrics to track performance against sustainability objectives, higher than the survey average of 85 percent.

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? Forty-four percent of I&TS CEOs surveyed feel that this tipping point will be reached within ten years—a somewhat more pessimistic view than that expressed by all executives

surveyed, fifty-four percent of whom believe the tipping point is less than a decade away. Nevertheless, this expected time horizon represents an optimistic viewpoint that would have been almost unthinkable at the time of the last study in 2007.

What factors will contribute to reaching that tipping point? High percentages of I&TS CEOs (93 percent) believe that the most important factors are:

- Better valuation of sustainability activities by shareholders and investors
- Consumers demanding more sustainable products and services

As this overview of the current state of the industry has shown, the mindsets of I&TS CEOs are converging on a common understanding of the importance of sustainability. A majority of CEOs now believe that sustainability should be embedded within core business – but significant challenges lie ahead in making that vision a reality.

Part Three

Making Progress: From Strategy to Execution

The challenges ahead: Closing the performance gaps

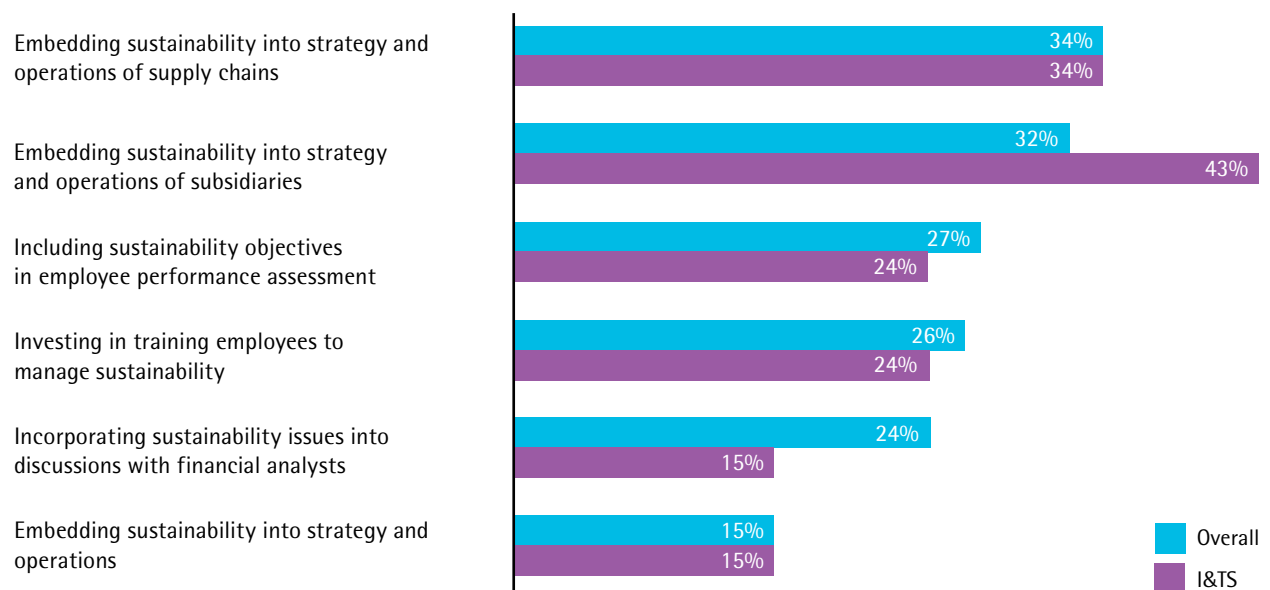
CEOs are aware that, for the most part, truly embedded sustainability is a vision of the future, not a description of the operations and strategy of most companies today. Put most simply, the challenge in reaching a new era is one of execution. Although, as we have seen, the belief in the importance of sustainability among CEOs in the infrastructure and transportation industry is nearly universal, these executives see a significant challenge in executing a sustainability strategy.

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. Although 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 93 percent of I&TS executives say that sustainability issues should be integrated into strategy and operations, only 78 percent say such integration exists in their company, a 'performance gap' of 15 percent—and our conversations with CEOs on the challenges of integration suggest that even this may be interpreted as overconfidence. Digging deeper into the specifics of integration, greater gaps are apparent: for example, 90 percent say sustainability should be integrated into a company's subsidiaries, but only 47 percent have achieved such integration, a gap of 43 percent. Similarly, 84 percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, only 50 percent are confident this has been achieved, leaving a gap of 34 percent.

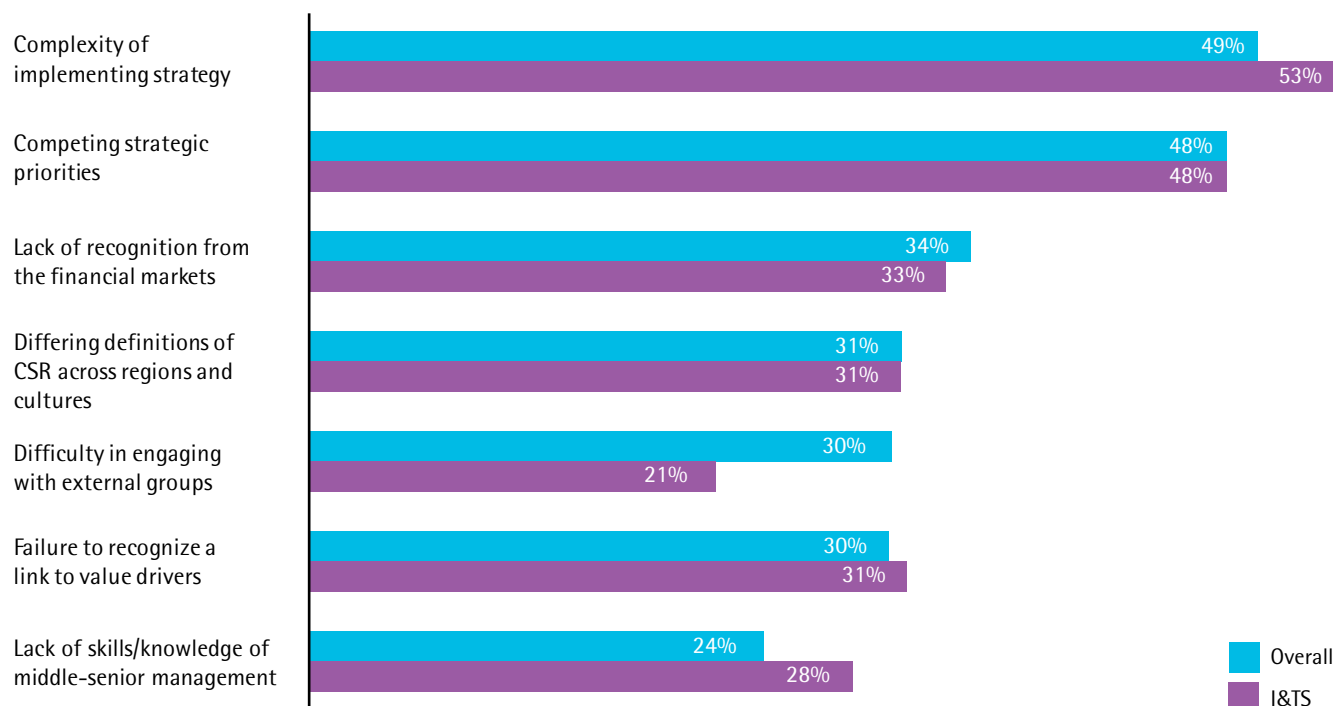
If they are to close these performance gaps, and match their undoubted ambition with successful execution, CEOs must overcome a set of both internal and external challenges.

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



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

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



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

Internal challenges

CEOs face a number of internal challenges to executing a strategy that embeds sustainability across the business. Foremost among these challenges are the complexities of managing complex global operations and functions, and finding balance across multiple priorities and investment demands.

Managing complexity

The number-one barrier cited by I&TS executives to an integrated approach to sustainability (53 percent, slightly higher even than the global survey average) is the complexity that accompanies the integration of sustainability across different functions and business units.

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

I&TS CEOs also report that a significant barrier to an integrated, company-wide approach to sustainability is the difficulty of managing competing priorities: 48 percent of executives in the sector cite the difficulty of competing priorities facing decision makers. This finding highlights

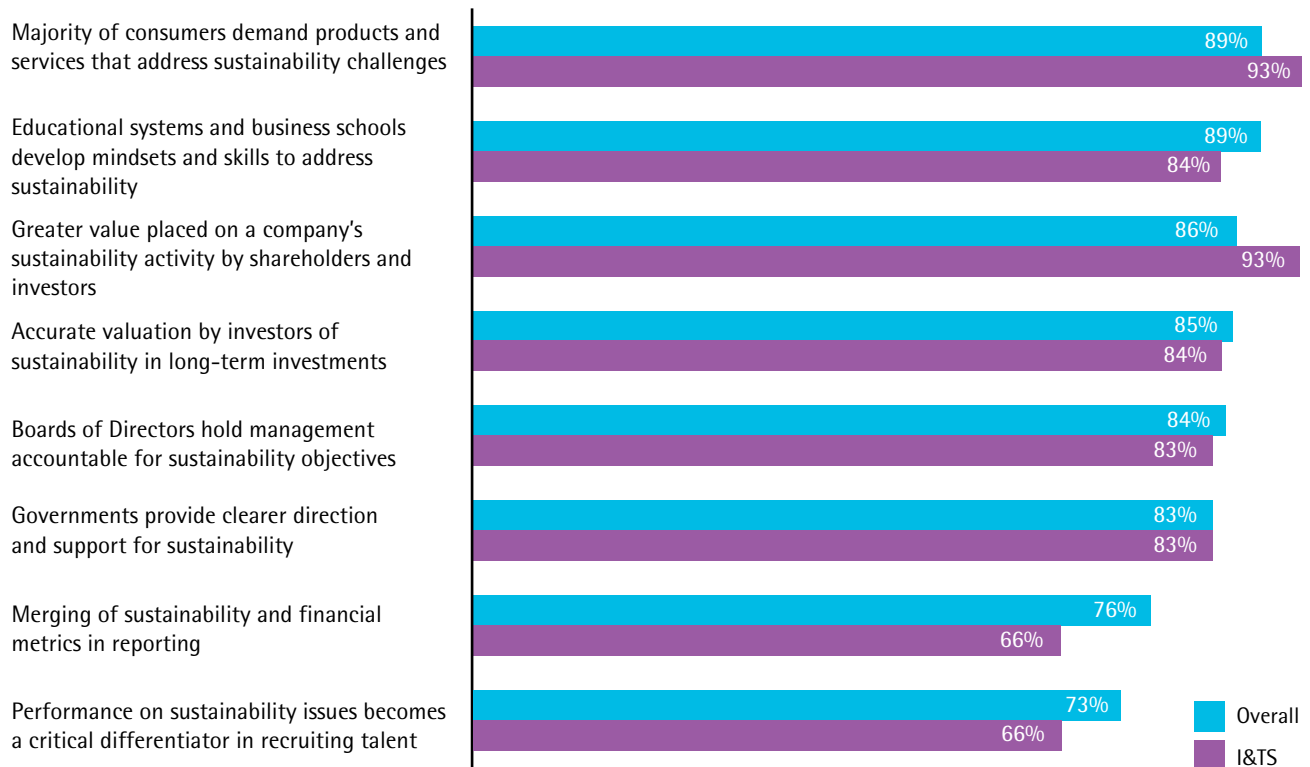
the challenge of reconciling the need to take a long-term perspective on sustainability issues with a turbulent market environment that often forces companies to make decisions based on near-term pressures.

Thus, 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.

Demonstrating the business value

About one-third of I&TS executives also point to barriers to do with quantifying and demonstrating the business value of sustainability. Some executives note the challenge in making a meaningful link between sustainability and business performance. And, as we shall discuss later, companies have a sometimes-difficult relationship with investors and analysts, who do not necessarily reward sustainability-related initiatives with increased valuations. This, too, drives a short-term, quarterly mindset, which can interfere with the long-range planning needed to achieve integrated, embedded sustainability capabilities.

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)

People and performance

Performance gaps are also apparent with regard to the capabilities and assessment of employees. Seventy-nine percent of I&TS CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 55 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 86 percent of I&TS CEOs believe that such metrics should be included, just 52 percent report that such performance measures 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

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 sustainable strategies and operations. These barriers cannot be overcome by the business community acting alone; nevertheless, CEOs recognize that companies will need to play an active role in working with a variety of other stakeholders to shape the necessary conditions for sustainability to prosper. The most prominent of these challenges, based on our discussions, relate to customers and consumers, investors and regulators.

Understanding consumer and customer demands

As noted earlier, the customer relationship in the I&TS industry is complex, since companies are selling to enterprises and public authorities, yet behind those immediate customers sit consumers with varying levels of commitment to sustainability issues.

Across the board, CEOs are uncertain how to interpret demand for sustainable products—consumer survey data appears to conflict with purchasing signals. CEOs seemed largely to agree with one business leader from the consumer goods sector, 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, high percentages of I&TS executives understand that the consumer is at least a potential driver of change: 93 percent of I&TS CEOs—and 89 percent in the global survey—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 towards embedded sustainability is beset by challenges around understanding consumer attitudes and tastes.

Creating a deeper understanding of the consumer, especially in newer, emerging markets is also important. As noted earlier, emerging markets are a huge opportunity for I&TS companies: 69 percent of these executives state that they will adopt new business models and practices in emerging markets over the next five years. But efforts will have to be made to understand the distinctive needs of emerging-market consumers, and to educate them as well. As Ernst Bärtschi, CEO of the Sika Group, puts it, “The challenge for sustainability and business success is to train people to explain the advantages of technology to the customer: change always takes time, and customers have to be convinced—we can’t dictate to them.”

Engaging the investor community

It appears that mainstream investors are a critical – if currently 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 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 28 percent of I&TS CEOs identify the investment 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. In fact, 84 percent of I&TS CEOs believe 'accurate valuation by investors of sustainability in long-term investments' to be an important factor in driving a new era of sustainability.

Achieving more regulatory certainty

I&TS CEOs expressed a need for clearer regulatory and policy frameworks, especially through regulation and standards that help companies unwind the complexities of international markets. Sixty-nine percent of industry executives surveyed expect governments and policy makers to increase their interventions to drive better environmental performance and more sustainable businesses.

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. I&TS executives are fairly evenly split (59 percent in favour, 41 percent against) as to whether they would welcome increased government intervention in the market to drive sustainable outcomes. The attitude of executives is well articulated by Ignacio Galán, Chairman & CEO of Iberdrola: "We want regulation to be stable and predictable."

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 substantive, innovative actions to set their companies on the road to a new era of sustainability.

Executives also recognize, however, that the journey will be long and complex, and that they will have to overcome a series of challenges, both internal and external, to reach a tipping point where sustainability is truly embedded in companies worldwide.

Part Four

Pioneers of the New Era

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

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

The innovations of sustainability pioneers in the infrastructure and transportation services industry show companies addressing the key challenges of the industry through explicit programs aimed at improving efficiency in production and manufacturing; pursuing innovations to drive differentiation; creating transportation powered by alternative energy sources; and engaging collaboratively with value-chain partners, as well as with regulators.

Improving operating efficiency

Many companies in the infrastructure sector are making substantial strides to improving the efficiency of their internal operations. This is especially the case within the energy-intensive transportation industry, where leading companies are exploring multiple initiatives to make progress in areas such as fuel consumption, CO₂ and nitrogen oxide emissions, noise, waste generation and water consumption. Some initiatives to reduce a company's carbon footprint are more readily accomplished, since existing technologies and platforms are available.

Railway companies are focusing on reducing energy requirements and carbon emissions, although rail already represents a more environment friendly mode of transport compared with alternatives. SNCF, for example, has dedicated 20 percent of its R&D budget to sustainability research, with the aim of modifying its services to make them more sustainable, to reduce energy consumption and carbon emissions, and to use natural resources more efficiently.¹ Eurostar reached its objective of 25 percent reductions in CO₂ emissions per traveller in 2009, three years ahead of schedule. Based on that success it raised the bar for its 2012 goal to a 35 percent reduction.²

In terms of other innovations, some airlines are now using electric vehicles to service aircraft and move around airports instead of using older, high carbon-emitting internal combustion engines, while others are exploring developments such as the use of more bio-fuels for their aircraft.

The buildings sector is also focused on reducing its energy requirements. Buildings—through their construction and ongoing management—are one of the largest contributors to carbon emissions. Because of current inefficiencies in their use of natural resources, construction and management present significant opportunities for improvement. Many new initiatives to improve the sustainability of buildings are underway, both in new construction and in retrofits.

Significant energy can be saved by retrofitting existing buildings and homes or by better utilizing information already residing within existing building management systems. Several cities are leading the way in this regard by targeting both municipal buildings and commercial buildings. Paris aims to retrofit 20 percent of its municipal buildings, and projects a 12 percent reduction in greenhouse gas emissions by 2020.³ London launched the Buildings Energy Efficiency Program to retrofit public sector buildings, targeting reductions of 440,000 tons of CO₂ per year by 2025.⁴

Residential buildings can also be retrofitted to reduce their negative environmental impact. Chicago, for example, aims to retrofit 400,000 residential homes or units by 2020. Between 2004 and 2008, Chicago saved \$6 million on energy costs because of office space retrofitting. In 2008 and 2009, the use of more efficient appliances and energy-saving fluorescent light bulbs has saved Chicago residents more than \$12 million on their energy bills.⁵

Innovations by I&TS companies are essential if companies are to continue achieving these kinds of sustainability impacts on the built environment. For example, Bouygues and Alstom have partnered to create EMBIX, a joint venture providing energy-management services for eco-districts. The joint venture draws on the companies' experience in sustainable property development, distributed power generation and the management of energy demand to create eco-neighborhoods that will at least partly generate the energy they use. As customer and end user demand for energy efficiency grows, energy-management services at the scale of eco-districts are becoming a differentiator for companies integral to the development of the built environment.⁶

Innovation and new technologies

Several leading infrastructure companies are responding to concerns about climate change, population growth, demographic change and resource scarcity through an increased focus on developing environmentally friendly products, services and solutions, often used by public authorities in partnership with technology and infrastructure companies to make progress towards a goal of smart cities and intelligent infrastructure.

For example, Siemens—a leader in providing products that allow their customers to address energy efficiency challenges—experienced strong demand for its green products throughout the downturn. Siemens generated revenues of €23 billion (US\$32 billion) with products and services from their 'Environmental Portfolio' in 2009, an 11 percent increase from 2008. In 2009 alone, Siemens helped customers cut approximately 210 million tons of CO₂ emissions—the equivalent of the annual emissions of New York, Tokyo, London, Munich and Berlin combined.⁷

Another example comes from Philips. Due to the increase in demand for energy-efficient products and services, Philips has been growing its portfolio of green products with specific targets through a comprehensive company-wide initiative called EcoVision. The company is adapting its current products and services to be more environmentally

friendly, while introducing new green product lines to address growing demand. In 2006, Philips set a target to generate 30 percent of total revenue from green products by 2012, compared with 15 percent in 2006. It has already surpassed this target, hitting 31 percent in 2009, and expects this to rise to 50 percent by 2015. Philips also plans to double its investment in green innovation to a cumulative €1 billion by 2012, and aims to improve the energy efficiency of its entire product portfolio by 50 percent by 2015 compared to 2009. Philips' energy-efficient light bulbs are being used around the world on city streets and roads, providing substantial cost savings to local governments while reducing natural resource usage and carbon emissions.⁸

Smart cities and intelligent infrastructure

More than 50 percent of the world's population now live in urban areas and this is predicted to rise to more than 60 percent by 2030. It is clear that urbanization is one of the key socio-economic trends of the next decade and of special importance to the strategic planning of infrastructure and transportation services. Because cities already consume 60–80 percent of energy production worldwide, and contribute over 60 percent of the world's greenhouse gas emissions, the need for infrastructure companies to develop innovative, efficient and intelligent solutions is seen as both a moral and business imperative.⁹

New and more collaborative business models are essential to making this dream a reality. Creating intelligent cities in which citizens, companies and government live, work and interact—supported by integrated, low-carbon products and services—can only be achieved by adopting an integrated approach—that is, planning and investment across the traditional infrastructure silos of water, buildings, waste, energy, heat/cooling, public safety and mobility.

For example, many city leaders are setting ambitious environmental and mobility targets. Regarding CO₂ emissions, a number of cities have committed to specific reduction target goals, though the magnitude of their ambition varies greatly. Among the cities Accenture research has benchmarked, Amsterdam is one important example of a city that is significantly committed to reducing its carbon footprint. The city has set a CO₂ emissions reduction target of 40 percent of its 1990 level by 2025. Moreover, many cities committed prior to COP16 to communicate their new emissions targets, and several Chinese cities have embarked on aggressive emissions reduction plans without necessarily publicizing their intended targets. In Japan, Yokohama aims to reduce its GHGs emissions per person to 30 percent of its 2004 level by 2025.¹⁰

When it comes to the transportation domain, which is at the heart of the congestion problem in all large cities and not only an emissions contributor, cities are setting specific targets for improved performance. Singapore, which is already a global leader in public transportation usage, has set a target by which, by 2020, residents will make 70 percent of all morning peak-hour trips on public transportation, with at least 85 percent of public transportation commuters completing their journey within 60 minutes. Shanghai wants to raise the proportion of trips taken by residents on public transportation to 50 percent in the central city, with most residents making the trip within one hour. And Seoul aims by 2020 to increase the use of public transportation to 70 percent, the use of bicycles to 10 percent and the share of green vehicles used by residents to 20 percent.¹¹

Companies are also developing unusual and innovative solutions to the challenges of urban development. For example, in China, Shenzhen Huashi Future Parking Equipment company has developed a '3D Express Coach' (also called a 'three-dimensional fast bus') that will allow cars less than two meters high to travel underneath a raised passenger level. The system is quicker and cheaper to build than an underground network, and will also lead to substantial environmental benefits. For example, the system is expected to reduce traffic congestion (and therefore carbon emissions) by up to 30 percent on heavily travelled routes. The bus will also save up to 860 tons of fuel per year, eliminating 2,640 tons of carbon emissions annually.

Partnerships and collaboration

The CEOs we spoke to consistently referred to the importance of partnerships with non-governmental organizations (NGOs) and governments in how they address sustainability challenges.

CEOs believe that the societal problems facing the planet are too big and complex for any sector or organization to go it alone. Higher public deficits and reduced public spending over the next decade (particularly in developed economies) further means that governments will increasingly look to businesses and the non-profit sector (e.g., charities and NGOs) to work together to deliver economic, environmental and social objectives.

For example, in Germany, utilities are threatened by reduced demand for energy and decreasing revenues, and with increased regulation on carbon. Energy company RWE therefore looked to diversify revenue sources by entering the market for electric vehicles in Germany. The complex value chain of the motor industry demanded that they enter into a joint project with Daimler to effectively enter the automotive market. Daimler provides the electric cars;

RWE handles the development, installation and operation of charging infrastructure, supply of electricity and central system control. The pilot is already in full operation in Berlin. By partnering in this way, both businesses are able to match their respective capabilities but also ensure that there is no compromising of either's competitive position in their respective industries.¹²

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 I&TS industry might look like. Across every aspect of the value chain, leading companies are beginning to go beyond a 'business-as-usual' approach, using sustainability as a lens to focus on the critical opportunities offered by the transition to a low-carbon economy.

Despite strong progress, however, CEOs recognize that they must do more, and that to reach a tipping point they must accelerate the journey to a new era of sustainability.



Part Five

Accelerating the journey to the new era of sustainability

The UN Global Compact-Accenture CEO Study 2010 has uncovered a picture of global business, and global attitudes towards 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 I&TS 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. We also include several examples of the actions that businesses can take to begin shaping these conditions.

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

Example business actions

- Measure and communicate the environmental and social impact of infrastructure and service operations.
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics regarding sustainability impacts.

Ninety-three percent of the I&TS CEOs participating in the study identify the point at which the majority of consumers demand products and services that address sustainability challenges as important to reaching a tipping point.

While the transmission of consumer preferences through business-to-business customers can be a complex issue in the sector, many companies are starting to shape emerging tastes and preferences for sustainable products and services. And the industry has increasing examples of companies actively working to respond to changing consumer attitudes. For example, Sika Services AG has become a pioneer in

innovative products, services and solutions that can drive better environmental outcomes. The company has heavily invested in green products and solutions to meet customer demand and increase sustainable development. The company is integrating sustainability into the design process for all new products to improve resource and energy efficiency.

New portfolio products for Sika include solar roofing, special adhesives for insulation, wind turbines and lightweight products for water reservoirs that result in zero waste and contamination. One of its innovations has reduced by 40 percent the amount of water needed to make concrete for construction projects.¹³

Through these initiatives, Sika is achieving increased alignment with customer demand for energy efficient solutions and products. They are also increasing revenues: in 2008, 34 percent of net sales were generated from products launched within the last five years. Sika is also realizing internal cost savings through more energy efficient processes and services.

CEOs participating in our research study identified two consumer measures as especially important: measuring and communicating the social and environmental impacts of their operations and improving the provision of consumer information and education, particularly through meaningful and accessible metrics on sustainability

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

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

- 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-four percent of the I&TS CEOs we surveyed identified the point at which educational systems and business schools develop mindsets and skills needed for future leaders to address sustainability as important to reaching a tipping point in sustainability.

Based on our conversations, I&TS CEOs see the importance of education and skills at three levels.

First, at the broadest level, CEOs believe nations around the world 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 I&TS companies as they seek to expand their presence in emerging markets.

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

For example, the Renault Foundation actively participates in educating and developing young talent. In collaboration with top university engineering programs they have created specific M.B.A. and Master's-level courses around mobility, electric vehicles and sustainable transport. The Foundation contributes €2.7 million (US\$3.3 million) to its mission every year and, since its creation, has welcomed more than 370 students from nine countries.¹⁴

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. As Ernst Bärtschi, CEO of the Sika Group puts it, "Training and developing a new generation of managers will be crucial in creating sustainable growth."

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: 79 percent of I&TS CEOs stated that they should be engaging in additional training to enable their managers to address sustainability issues, though only 55 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-four percent of I&TS 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; these insights can help 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 62 percent of I&TS CEOs report that they currently incorporate sustainability issues into discussions with financial analysts.

Here is the other side of the story: 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. As Fulvio Conti of Enel S.p.A. points out, "There should be a focus on integrated reporting of corporate social responsibility and financial results, which could bring about an alignment of sustainability with economic performance."

By taking these kinds of steps, companies might 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."

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.

One example of successfully embedding sustainability goals into individual performance metrics comes from National Grid, which has launched a program to embed carbon targets in the pay packages of some senior management. Executives are expected to reduce their group's carbon budget 1-1.5 percent each year until 2050. Carbon reduction targets are given equal weighting with other targets such as financial budgeting, safety, and operational delivery.¹⁵

Beyond matters of performance, another challenge is to measure sustainability performance in terms of both positive and negative impacts on society. For example, 'whole-life impact assessments' can track a company's water footprint across production, manufacturing and consumption.

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.
- Collaborate with regulators on regulatory restrictions to encourage alternative means of freight transportation, e.g. rail.

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. Eighty-three percent of I&TS CEOs noted that governments need to provide clearer direction and support for sustainability. At the same time, only 28 percent of I&TS CEOs surveyed named regulators as a key stakeholder group helping companies manage societal expectations.

CEOs in I&TS, as in other industries, have a clear interest in government action that encourages environmental improvement while preserving a free marketplace. As Ignacio Galan, Chairman & CEO, of Iberdrola, put it, "Regulation should defend competition and market freedom, and at the same time should promote energy efficiency, renewable energy and ensure tariffs are sufficient for the activities concerned."

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 about the role business should play in addressing sustainability, but businesses also need to have the confidence to identify where they can add most value—and where they can or should not. As one top executive told us, "Business can be an effective enabler that facilitates and brings together a network of actors. But there are limits to business responsibility." Businesses need to be more proactive and clearer in engaging with regulators and wider stakeholders to help set expectations about where they can—and cannot—achieve the most impact on sustainability issues.

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

Enabling conditions

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

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

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

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

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

Example business actions for I&TS companies, based on CEO interviews

- Measure and communicate the environmental and social impact of infrastructure and service operations.
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics re 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 behavioral change.
- Select and track appropriate metrics to measure and communicate sustainability performance.
- Integrate sustainability reporting with financial reporting and investor relations activity, under the remit of the CFO.
- Devise mechanisms to measure both positive and negative impacts on society and articulate value beyond traditional accounting concepts, e.g. P&L and the balance sheet.
- Embed sustainability issues into the performance and remuneration packages of top executives.
- Engage with governments to adopt collaborative approaches to shaping regulation—e.g., joint working groups, co-location of staff.
- Develop industry standards that preempt formal regulation.
- Collaborate with regulators on regulatory restrictions to encourage alternative means of freight transportation, e.g. rail.

Towards a new era of sustainability: Leading the way

Based on our interviews with CEOs, we are beginning to see a future era of sustainability with new opportunities and challenges. The increased complexity of sustainability issues and more diffuse networks through which they will have to be managed will take businesses into new, often unfamiliar terrain. CEOs believe, however, that this is a future where the role of business is integral to development – and where promoting and facilitating sustainable development will be integral to business.

Understanding this new 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 to a new era of sustainability.

Rising demand for a more sustainable urban environment and transport infrastructure is changing the nature of demand for companies in the infrastructure and transportation industry. As leading companies look to grow in the emerging markets while strengthening their domestic position, the effective management of social, environmental and governance

issues is becoming a critical factor in determining success. If new opportunities are properly harnessed through new products and services that help public authorities and private enterprise match their ambitions with execution, the opportunities are immense.

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 towards a sustainable economy. Aligning markets and sustainability outcomes will require constant renewal and adaptation from businesses themselves and in collaboration with others.

Many challenges lie ahead, and a new era of sustainability is far from guaranteed. It will require leadership as well as effective execution. Ernst Bärtschi, CEO of the Sika Group, articulated the challenge succinctly: "The decline in trust will put the onus on ethics and integrity to rebuild the position of business in society."

Many challenges and discontinuities lie ahead. The one critical imperative is the need to act—and act now.

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The authors would like to thank the following people for their insights and assistance

David Abood, Chris Allieri, Charlotte Bizeau, Tim Cooper, Ladislav de Langsdorff, Liz Eck, Mark Foster, Carrie Hall, Ulf Henning, Nicolas Imbert, Abhinav Kalra, Rod Kay, Justin Keeble, Georg Kell, Nijma Khan, Laura Kopec, Soma Mandal, Gary Markle, Bérenger Playford, Gavin Power, Benoit Prunel, Mark Purdy, Carron Sass, Mark Spelman, Matthias Stausberg, Lay Lim Teo and Sonia Thimmiah.

About the UN Global Compact

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

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

About Accenture Sustainability Services

Accenture Sustainability Services helps organizations achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes. Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights on sustainability issues based on our ongoing investments in research, including recent studies on consumer expectations and global executive opinion on corporate sustainability and climate change. Find out more at www.accenture.com/sustainability or contact us at sustainability@accenture.com.

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

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