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**SUMMARY FINDINGS FROM THE SUSTAINABILITY  
GLOBAL EXECUTIVE STUDIES, 2009-2016**

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# Corporate Sustainability at a Crossroads

Progress Toward Our Common Future in  
Uncertain Times

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## **1 / Executive Summary**

- Key Lessons

## **2 / Introduction**

- The Crossroads

## **4 / Corporate Sustainability Hits the Mainstream**

## **5 / Uneven Progress**

- Uneven Progress Across Industries
- Progress Varies Between Geographies
- Progress Varies Relative to Size
- Progress: A Work in Progress

## **9 / Making Material Progress**

- Innovate the Business Model
- The Implementation Challenge
- Build a Business Case
- Getting the Board on Board

## **16 / Engaging Shareholders**

- Embrace Collaboration Within Your Ecosystem

## **19 / The Big Why**

## **21 / Appendix**

## **24 / Acknowledgments**

# Corporate Sustainability at a Crossroads

## Executive Summary

**M**IT Sloan Management Review and The Boston Consulting Group have been tracking corporate sustainability for the past eight years, surveying tens of thousands of managers and interviewing more than 150 executives and thought leaders, while producing eight annual reports and numerous blogs and articles. *MIT SMR* and BCG joined forces to increase knowledge about business adoption of sustainable practices and to support the integration of sustainability into business strategy. (See Appendix for summaries of the reports.)

Despite significant progress, corporate sustainability has arrived at a crossroads. In one direction, corporate leaders in sustainability remain a minority, and are unevenly distributed across geographies and industries. In the other direction, a handful of standout companies are demonstrating that sustainability can be a driver of innovation, efficiency, and lasting business value. Populist political movements around the world threaten to set back global diplomatic progress on issues like climate change and reverse recent regulatory trends. All of this complicates the calculus of corporate leaders and their sustainability strategies.

Fortunately, the path to sustainable value creation has become substantially clearer in the past eight years. Based on our multiyear research on corporate sustainability, we have identified eight evidence-based factors that drive sustainable business practices, regardless of industry or region:

1. Articulate a practical sustainability vision and ambition that lays the foundation for new business practices.
2. Identify and prioritize material issues to focus resources.
3. Embed sustainability organizationally through cross-functional teams, clear targets, and key performance indicators (KPIs).
4. Innovate on multiple dimensions of your business model.
5. Develop a clear business case.
6. Get the board of directors on board.
7. Communicate a sustainability value-creation story to your shareholders.
8. Collaborate with a variety of stakeholders to drive strategic change.

## KEY LESSONS

**Key Lesson #1: Set your sustainability vision and ambition:** 90% of executives see sustainability as important, but only 60% of companies have a sustainability strategy.

**Key Lesson #2: Focus on material issues:** Companies that focus on material issues report up to 50% added profit from sustainability. Those that don't focus on their material issues struggle to add value from their sustainability activities.

**Key Lesson #3: Set up the right organization to achieve your ambition:** Building sustainability into business units doubles an organization's chance of profiting from its sustainability activities.

**Key Lesson #4: Explore business model innovation opportunities:** Nearly 50% of companies have changed their business models as a result of sustainability opportunities.

**Key Lesson #5: Develop a clear business case for sustainability:** While 60% of companies have a sustainability strategy, only 25% have developed a clear business case for their sustainability efforts.

**Key Lesson #6: Get the board of directors on board:** 86% of respondents agreed that boards should play a strong role in their company's sustainability efforts, but only 48% say their CEOs are engaged, and fewer (30%) agreed that their sustainability efforts had strong board-level oversight.

**Key Lesson #7: Develop a compelling sustainability value-creation story for investors:** 75% of executives in investment companies think sustainability performance should be considered in investment decisions, but only 60% of corporate executives think investors care about sustainability performance.

**Key Lesson #8: Collaborate with a variety of stakeholders to drive strategic change:** 90% of executives believe collaboration is essential to sustainability success, but only 47% say their companies collaborate strategically.

In this report, we draw upon our database of more than 60,000 survey respondents from companies around the world to assess the emergence of corporate sustainability across industries and elaborate the above eight critical insights that can help executives accelerate their company's contribution to our common future.

## Introduction

This year marks the 30th anniversary of the publication of "Our Common Future,"<sup>1</sup> the report from the United Nations World Commission on Environment and Development (also known as the Brundtland report) that launched the idea of "sustainable development." The report envisioned a future where current economic prosperity did not come at the expense of future generations. But its definition of sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" was diplomatic sleight-of-hand, cleverly satisfying both economic and environmental ministers but offering no guidance on how such a vision might be implemented.

Three decades in, we have yet to implement this vision. However, today we know much more about what it will take to make it real. We know, for example, that relying only on government fiat to address sustainability issues such as climate change, water scarcity, depletion of natural resources, and workers' rights is insufficient. Many solutions lie with business and the commercial sector's ability to innovate. Sustainable corporate performance is essential, and executive leadership vital. Proactive action from the private sector is now recognized as fundamental to realizing a sustainable future.

Today's business leaders demonstrate a much higher level of commitment to corporate sustainability than existed when the Brundtland report was published back in 1987. Nine thousand companies have joined the UN Global Compact since it was established in 2000.<sup>2</sup> Its members commit to 10 sustainability principles. Seventy-four percent of the world's largest companies now use the Global Re-

porting Initiative's process for tracking and reporting their sustainability performance.<sup>3</sup>

In practice, a majority of executives today agree that having a sustainability strategy is necessary to be competitive.<sup>4</sup> More and more companies are reporting on their sustainability performance.<sup>5</sup> The roster of businesses with multibillion-dollar sustainable business practices is expanding year by year.<sup>6</sup> Corporate sustainability is no longer a marginal or money-losing set of activities.<sup>7</sup>

A vast network of tool makers, including investors, consumer groups, organizations, coalitions, certifiers, and platforms, now exists to spur and aid sustainable business practices. Two significant trends have emerged in relation to this burgeoning network: One is that companies, as well as partners in their value chain, have become much more transparent about their own sustainability-related activities. Corporations are doing more to track and communicate sustainable practices, just as more tools have become available to consumers and non-corporate actors to measure and monitor (un)sustainable business activities. Notably, social media and other technology platforms have become effective mechanisms for heightening awareness of crises and corporate misbehavior, exerting increased pressure on companies to respond.

A second trend relates to groups of companies or nations working together to forge new standards and goals for sustainable business practices. The Sustainability Consortium, for example, founded nearly a decade ago with funding from Wal-Mart Stores Inc., has a significant network of members committed to science-based sustainability guidelines for products and supply chains. Just last year, representatives of 195 countries ratified a landmark climate agreement in Paris to set nation-by-nation limits on greenhouse gas emissions beginning in 2020. Signatories to the agreement represent a large portion of the world's population. The Paris Agreement will likely have a significant impact on the global economy and focus sustainability practices in industries around the world. Even with a climate skeptic at the helm of the executive branch of the U.S. government and un-

## ABOUT THE RESEARCH

This report represents the conclusion of sustainability research carried out between 2009 and 2017 by *MIT Sloan Management Review (MIT SMR)*, in partnership with The Boston Consulting Group (BCG). Over the course of eight years, we conducted an annual global survey on the topic of sustainability and business. Executive and management respondents came from a broad mix of industries, 118 countries, and totaled over 60,000 respondents (18,733 responses were from managers in commercial enterprises). The survey pool included *MIT SMR* subscribers and readers, MIT alumni, BCG clients and alumni, UN Global Compact participants, and other interested parties.

In addition to survey results, each year we interviewed practitioners, academics, and subject-matter experts from a number of industries and disciplines to further our understanding of the sustainability issues facing organizations and to refine hypotheses we were testing in the survey itself. A list of the 176 people who participated in our research through interviews (some more than once) can be found in Acknowledgments. We appreciate the generosity they demonstrated in sharing their time and insights, which contributed to the richness of our reports, including dozens of examples of sustainable business practices, many of which made their way into the final reports. Content from several reports are integrated into this report, which synthesizes and extends the findings from this eight-year research effort.

Details about the research and analysis for each annual report can be found within individual reports, at [sloanreview.mit.edu/reports](http://sloanreview.mit.edu/reports).

certainty about whether the United States will withdraw from the treaty, large polluting nations like China and India have begun introducing stricter regulations in accord with the Paris Agreement.

## The Crossroads

Despite this progress, corporate sustainability has arrived at a crossroads. In one direction, corporate leaders in sustainability remain a minority and are unevenly distributed across geographies and industries.

Stand-out corporate leaders, like Unilever's Paul Polman or Patagonia Inc.'s Yvon Chouinard, are still the exceptions. In another direction, the natural environment continues to change as a result of human activity. Catastrophic loss events from naturally occurring events like floods, earthquakes, and droughts are becoming more frequent and intense,<sup>8</sup> threatening regional economies and compounding resource-scarcity issues that afflict many areas. In still another direction, global economic inequality presents a growing risk to globalization and international market stability.

Public attitudes toward government regulation and efficacy also intersect with corporate sustainability. With populist and anti-regulatory leaders on the rise, trust in government institutions reaching a low point, and some political leaders denying the reality of climate change, the potential for corporate sustainability to lose momentum or backslide is all too real. In the United States, the coal industry is undergoing a wave of deregulation, prompting concerns that the U.S. will displace China and reclaim its title as the world's largest emitter of greenhouse gases. Elsewhere, deforestation rates in the Amazon rainforest are on the rise after a decade of declines, pointing to the potential for broad reversals in recent trends.<sup>9</sup>

If backsliding is to be avoided, corporate leaders have an urgent need to accelerate their sustainability efforts and resist the siren song of new anti-regulatory incentives that tempt leaders to scale them back.

What can corporations do to hasten their sustainability efforts? A first step is to better understand the progress corporate sustainability has already made, and then build on those lessons. *MIT Sloan Management Review* and The Boston Consulting Group have been tracking developments in corporate sustainability for the past eight years, surveying tens of thousands of managers and interviewing hundreds of executives and thought leaders, while producing eight annual reports and numerous blogs and articles. (See Appendix for summaries of the reports, in addition to links.) For this report, we assess the emergence of corporate sustainability across industries, and elaborate eight critical insights about what

executives can do to accelerate their company's contributions to our common future.

## Corporate Sustainability Hits the Mainstream

To see how far corporate sustainability has come, one need look no further than the financial sector. Think of the financial sector as a group of organizations that includes not only retail and commercial banks but also central banks, insurance companies, re-insurance companies, asset management companies, investment funds, venture capitalists, private equity companies, institutional investors, and stock exchanges.

In 2010, a UN-financed report revealed that only 22% of 766 CEOs believed that the investment community would be major stakeholders in their company's sustainability efforts.<sup>10</sup>

No more.

Our 2016 report, "Investing for a Sustainable Future," demonstrated that a clear majority (60%) of executives in publicly traded companies believe that good sustainability performance is important to investors. But even this majority understates how much investors really care about corporate sustainability. Our survey results show that an overwhelming three-quarters (75%) of senior executives in mainstream investment firms believe sustainability performance is materially important to their investment decisions. Seventy-four percent of surveyed investors agreed that sustainability performance matters more than it did three years ago. Investors care more about sustainability than many managers believe.

A 2016 report from the Morgan Stanley Institute for Sustainable Investing and Bloomberg LLC shows that among 402 asset managers, 89% were familiar with sustainable investing and 65% practiced sustainable investing in some form.<sup>11</sup> Bob Eccles, retired Harvard Business School professor and chairman of Arabesque, a London-based invest-

ment company, observed, “The vice chairman of one of the top 10 banks by market cap told me he interviewed all 50 of their largest institutional investors last year, and that was the first time every single one asked about sustainability or ESG. Companies have been complaining for years that nobody cares about sustainability, but investors care, and companies need to up their game.”

Many efforts are underway to guide companies on how to report environment, social, and governance (ESG) metrics. Below are three examples of organizations that address this:<sup>12</sup>

- The United Nations-supported Principles for Responsible Investment (UN PRI) state that an “economically efficient, sustainable global financial system is a necessity for long-term value creation” and will reward long-term responsible investment. More than 1,600 investment organizations have committed to the UN PRI’s six principles of responsible investment, which include incorporating ESG issues “into investment analysis and decision-making.”<sup>13</sup>
- In the U.S., the Sustainability Accounting Standards Board (SASB) is working to develop rules governing public disclosure of financially material corporate sustainability information. SASB’s stated mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.<sup>14</sup> SASB is developing a materiality matrix that identifies key sustainable issues for companies in 79 industries and 10 sectors. SASB claims to be the only sustainability standard to cover 79 industries.<sup>15</sup>
- The UN’s Sustainable Stock Exchange Initiative, established in 2009, works with stock exchanges to develop more sustainable capital markets. According to a 2016 report on the Initiative’s website, “More than 70% of listed equity markets — 58 stock exchanges altogether — have signed on. Twelve exchanges incorporate reporting on ESG information into their listing rules, and 15 provide formal guidance to issuers.”<sup>16</sup>

Many new analytics tools and platforms are making ESG performance information easier to access — and make sense of.<sup>17</sup> This trend toward better access to better data is expanding the group of stakeholders using information about corporate performance on ESG factors, including millennials looking for employment opportunities with companies that have strong sustainability performance.

Investors are not just looking for information; they are also looking for new sustainability-oriented investment products. A 2016 *Wall Street Journal* article, “‘Sustainable Investing’ Goes Mainstream,” documents the trend, discussing new sustainability products from BlackRock and Goldman Sachs.<sup>18</sup> Likewise, the emergent labeled green bond market is expanding rapidly, reaching \$118 billion in 2016.<sup>19</sup> Green bonds are debt issuances that meet certain international standards ensuring projects will have a positive environmental impact: They represent a growing, but still tiny, fraction of the overall global bond market, which has a value close to \$90 trillion.<sup>20</sup> Indeed, all new multi-decade bond issuances are being increasingly scrutinized through a sustainability lens. With such long payback periods, lenders need to know that a borrower’s business can be sustained in an increasingly hot, crowded, and uncertain world.

Even with the proliferation of information, tools, products, organizations, and networks aimed at advancing or exploiting corporate ESG conduct — along with heightened awareness among executives and public interest in corporate sustainability — the advancement of sustainable business practices within companies is irregular across industries, geographies, and company size.

## Uneven Progress

Companies that are leading the corporate sustainability movement have many things in common, but a fundamental one is having a *sustainability strategy*. Sustainability strategies are not created equal, however, and their relevance to core business activities varies widely among organizations. Since every com-

pany has a unique organizational structure, supply chain, employee base, geographic footprint, and so on, it is logical that every company also has a unique sustainability profile. This makes variety in sustainability strategies inevitable. Some managers will say they have a sustainability strategy, but often it's just a near-term plan for achieving incremental environmental or social improvements or complying with relevant existing regulations. For other companies, sustainability strategy is linked to their overall business strategy, often encompassing the supply chain and customer segments. In the most advanced companies, sustainability strategy *is* the business strategy, fully embedded in the company's purpose. We discuss differences between these strategies below.

**Key Lesson #1: Set your sustainability vision and ambition: 90% of executives see sustainability as important, but only 60% of companies have a sustainability strategy.**

Corporate leaders in sustainability not only articulate a vision for their sustainable business but also connect that vision to a strategy. Although 90% of managers agree that having a sustainability strategy is important to their business, only 60% claim that their organization has any kind of sustainability strategy (see Figure 1). Many companies have no real sustainability strategy at all. Instead, they have projects, anecdotes, and examples they make available to shareholders, regulators, and consumers in the form of glossy sustainability reports. Our research indicates that companies struggle to find a payoff from sustainability until they develop a true sustainability strategy and build a solid business case. Dave Stangis, vice president of public affairs and corporate responsibility at Campbell Soup Co., explains that many companies are not acting strategically and haven't figured out how to really integrate sustainability. "They are throwing things against the wall to see if they stick," he says. "They probably are losing money on sustainability."

**Uneven Progress Across Industries**

Industries that have the highest percent of companies with a sustainability strategy are in chemicals, energy and utilities, industrial goods and services, and machinery (see Figure 2, page 7). These, of course, are highly regulated industries with substantial environmental and health and safety concerns, as well as significant resource needs or constraints. Sustainability issues are an inescapable aspect of these industries, with many concerns becoming material to the success (and failure) of their businesses. For companies in these industries, having a sustainability strategy is practically mandatory. In the energy sector, for example, oil and gas companies often need to address environmental and social factors in order to meet the expectations of communities in their operating and market environments; a broader strategic approach to sustainability that embraces more of their business is a necessity. "For us, this is a key part of the business driver behind sustainable development," says Tom Albanese, CEO of Rio Tinto. "It is the license for our asset base to operate." Some sectors within the energy industry may not survive as pressures mount to move toward

**FIGURE 1: THE IMPORTANCE OF A SUSTAINABILITY STRATEGY**

Ninety percent of respondents see sustainability as important, but only 25% have developed a positive business case.



a less carbon-dominated economy. For companies in the coal sector, for instance, a sustainability strategy might mean shifting their corporate focus away from coal products. (See Sidebar: Sustainability For Some, But Not Others.) With the United Kingdom prohibiting the use of coal plants after 2025, Drax, a power company, is moving aggressively to transform its coal plants into wood pellet-burning plants and to increase its wind and solar energy capacity.<sup>21</sup>

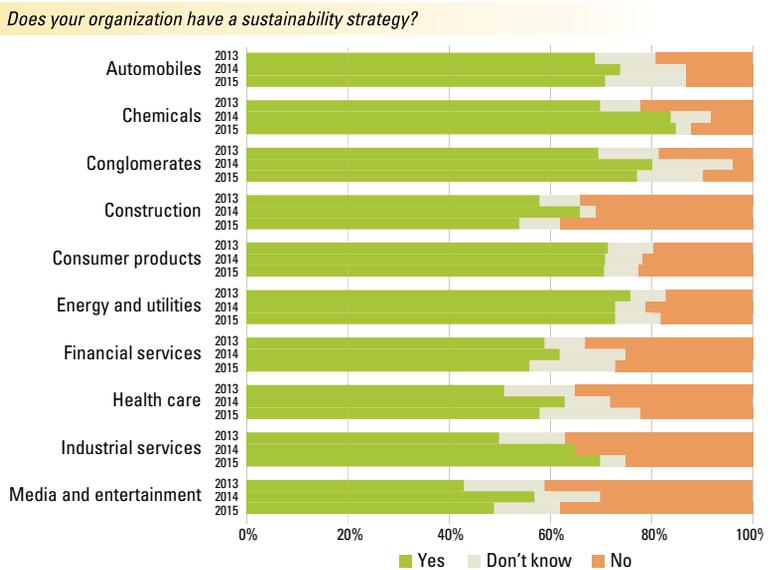
### Progress Varies Between Geographies

The share of companies with sustainability strategies varies across regions. The percentage of companies with a sustainability strategy has steadily increased in Australia, Europe, and Latin America (see Figure 3, page 8). Unsurprisingly, businesses that operate in multiple regions have the highest share of sustainability strategies. Northern America<sup>22</sup> has a relatively low proportion of organizations with sustainability strategies, and there is a significant risk that the deregulation push of the current U.S. administration could unravel the social and environmental gains of the last few years. Companies in both North and Latin America are less likely to view sustainability-oriented strategies as necessary to be competitive (see Figure 4, page 8).

Internal or external forces may drive adoption of a sustainability strategy. In Latin America, for instance, external pressures in the form of new regulatory policies are driving adoption of sustainability strategies in the mining industry. Mining incidents and popular protests are spurring regional governments to strengthen the criteria that companies must meet in order to obtain, and maintain, their license to operate. In other Latin American industries, strong leadership motivates adoption of sustainability strategies. The Costa Rican beverage leader Florida Ice & Farm Co. SA is a case in point. In 2005, the company responded to Costa Rica's looming water access crisis by investing in water-saving measures. Within two years, the organization had decreased its use of water in production by an eye-popping 82%, becoming Latin America's first water-neutral company in 2012. Beyond the sustainability gains, the reduction drove down production costs and

## FIGURE 2: ORGANIZATIONS WITH SUSTAINABILITY STRATEGIES BY INDUSTRY

Highly regulated industries such as energy and utilities are most likely to have a sustainability strategy.



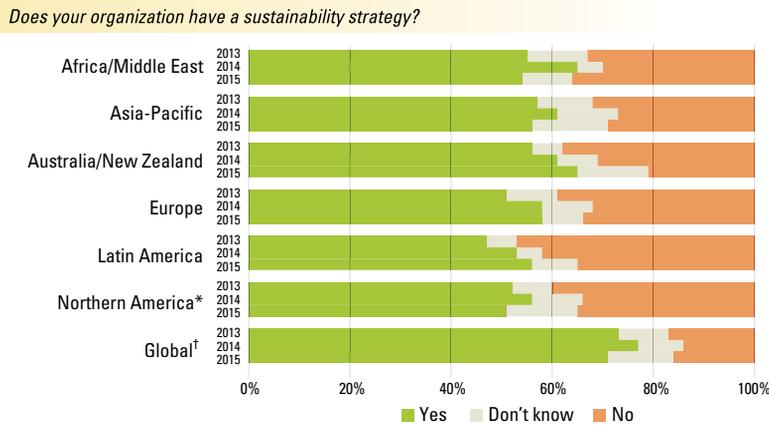
### SUSTAINABILITY FOR SOME, BUT NOT OTHERS

In a sustainable future, some industry sectors may not survive. According to London Business School professor Ioannis Ioannou, the possibility that some companies may not make it in a sustainable future "is quite expected." He explains, "In my mind, the pressure for sustainability is, in many ways, the mother of all disruption. We're talking about challenges that go far beyond just technological innovation in terms of products and services. We're talking about business model innovation. We're talking about changing the very identity of organizations... It will be no surprise that a lot of companies will simply fail to meet that expectation."

In general, corporate lifespans are shrinking; publicly traded companies in the U.S. have a 1 in 3 chance of disappearing in the next five years, a sixfold increase since 1965.<sup>i</sup> It's a broad-based phenomenon: Most types of businesses in most industries run the risk of dying younger. Sustainability is just adding additional pressure to this trend.

**FIGURE 3: ORGANIZATIONS WITH SUSTAINABILITY STRATEGIES BY REGION**

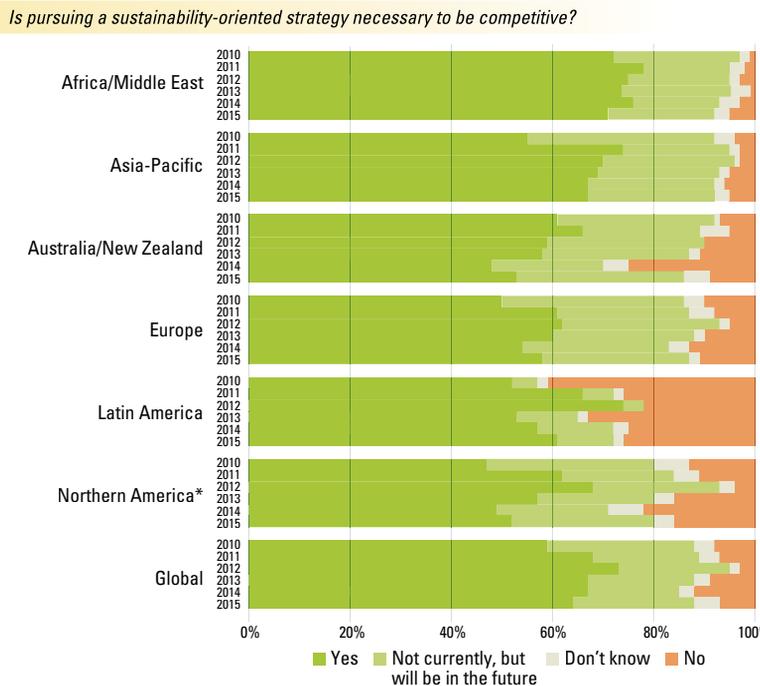
Companies in Northern America are less likely to have sustainability strategies.



\* Respondents from Mexico largely self-reported themselves as Latin American, not from North America. Northern American respondents were virtually all from U.S. and Canada. † Primary business spread across three or more regions

**FIGURE 4: COMPETING WITH SUSTAINABILITY**

Percent of managers who perceive sustainability-oriented strategies as necessary to be competitive varies by region.



\* Respondents from Mexico largely self-reported themselves as Latin American, not from North America. Northern American respondents were virtually all from U.S. and Canada.

helped sustain 20% annual growth between 2010 and 2014.<sup>23</sup> Gisela Sanchez Maroto, director of corporate relations at Florida Ice, explains, “We found reasons — even business reasons — to have an environmental and sustainability strategy.”

In general, many of the organizations from Latin American and Asia-Pacific countries that are represented in our survey are in countries such as Brazil, Colombia, Indonesia, and India, where ESG factors are significant features of the market environment.

**Progress Varies Relative to Size**

The largest companies in our database (100,000 or more employees) have consistently been the best performers across a range of metrics. “The big organizations are not only good at problem-solving but also at scaling up sustainability solutions,” says Ioannis Ioannou, associate professor of strategy and entrepreneurship at London Business School. The largest companies are most likely to have a sustainability strategy: 78% of large companies do versus 54% of small companies (10,000 or fewer employees). They are also most likely to report that sustainability has been a top priority for management. Moreover, the share of large organizations that have changed business models because of sustainability innovation is greater than those of both midsize (10,000 to 100,000 employees) and smaller companies.

As Figure 5 illustrates, size matters, and it’s not a surprise that large global operators are much more likely to have a sustainability strategy in place. Many large companies are looking to emerging markets for growth, and those markets can be rife with sustainability-related issues.<sup>24</sup> Multinational organizations operating in global markets often find it easier to develop a consistent compliance approach by applying the regulatory standards of the most stringent countries to all of their operations, regardless of location. Doing so raises the bar for sustainable business practices in all of the markets where the company operates.

Unilever is a prime example. When top management conducted a review of its overall business, Unilever executives realized that the company’s future growth

would come from emerging markets that had significant sustainability issues in areas like deforestation, poor sanitation, and water scarcity.<sup>25</sup> The company subsequently analyzed its entire value chain across brands and countries and discovered that “much of its footprint was at the consumer end, involving issues such as using more product than necessary or improper end-of-life disposal.”<sup>26</sup> This discovery gave the senior leadership team a purpose and a rationale for aligning its resources behind a strategic sustainability focus. In 2016, the company’s Sustainable Living brands were growing 30% faster than its traditional brands.<sup>27</sup>

One takeaway from the performance of the largest companies is that there is an excellent opportunity to improve the sustainability performance of smaller corporations. Mindy Lubber, CEO of CERES, a Boston-based nonprofit that works with business on developing their sustainability agendas, notes: “We have to focus on midsize companies and smaller companies because they have equally compelling opportunities, but they’re just not as far along.”

### Progress: A Work in Progress

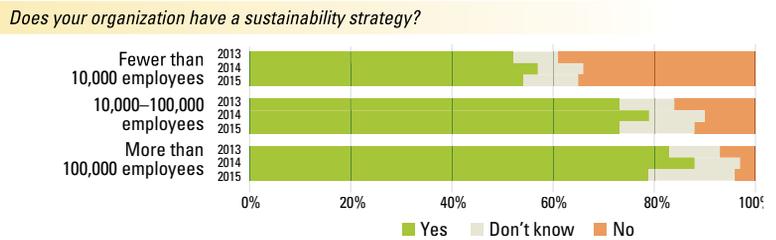
The uneven distribution across industry, geography, and size of companies with sustainability strategies is a call to action, especially for the 40% of companies in our surveys that don’t have a sustainability strategy.

A major constraint for those organizations is that their leadership tends to view ESG factors as necessary issues to address, rather than as sources of business opportunity. In contrast, companies with more developed sustainability strategies view sustainability as both a necessity and an opportunity — what PepsiCo’s senior director of sustainable development, Dan Bena, calls the sustainability bull’s-eye.

“It requires rethinking how to do things,” says Andrew Hewitt, founder of GameChangers 500, an organization that ranks the world’s top “for-benefit” businesses. Incremental change and eliminating externality risks are not enough to produce meaningful results. “You check the boxes by recycling and

## FIGURE 5: ORGANIZATIONS WITH SUSTAINABILITY STRATEGIES BY SIZE

Larger companies are more likely to have a sustainability strategy.



composting to reduce harm; however, you change the game when you redefine success and build your business operations to meet new measurements of value,” he explains.

## Making Material Progress

Companies with successful sustainability strategies connect their sustainability efforts with issues and activities that are material to the business. “Strategies” that focus on biking programs, recycling drives, or a CEO’s pet philanthropy have little impact on the business and the larger sustainability issues that matter most. These are not strategies for making the business sustainable over time. “If you’re a bank and you’ve got an energy-savings program and you’re in LEED platinum buildings, investors aren’t going to care,” says Arabesque’s Eccles. “But if the bank’s loan portfolio has a bunch of ESG risk and stranded assets ... those are things that are material.”

Patagonia Inc. is an example of a company that connects its sustainability strategy with material business issues. As a leading textile manufacturer and retailer, Patagonia recycles plastic waste into its innovative fabrics and, with its Worn Wear motto, “Better than new,” encourages its customers to mend and repair Patagonia clothing rather than throwing it out and buying new.<sup>28</sup> From 2008 to 2015, Patagonia had a compound annual growth in revenues of 14%, while profits surged 300% during this period. It also contributes 1% of annual revenues to nonprofit organizations that promote conservation of the natural environment their outdoor customers love.<sup>29</sup>

**Key Lesson #2: Focus on material issues:** *Companies that focus on material issues report up to 50% more profits from sustainability activities than those that do not. Those that don't focus on their material issues struggle to add value from their sustainability activities.*

### **BASF ACCELERATES ITS APPROACH TO SUSTAINABILITY<sup>ii</sup>**

BASF's accelerators program aims to turn all products into sustainability all-stars. The business case is solid for creating these highly sophisticated, sustainability-centered products. Accelerator products account for 10 billion euros [\$11B], or almost 18% of the company's total annual relevant product sales of 56 billion euros [\$61.6B]. To ensure that the message of each product's sustainability benefits reaches customers, the BASF sales force has a product card that describes each product's sustainable characteristics, such as recyclability or reduction of water use in manufacturing.

The program is the fruit of a carefully planned approach to engaging BASF's board. The company established a steering initiative for sustainable solutions that combined a "top-down" perspective — driven by a sustainability board chaired by a member of the board of directors — with a "middle-out" perspective, in which every business unit assesses its own products against strict sustainability criteria.

The sustainability board then went to the business units to secure buy-in from their leaders and draft strategies for making needed changes. Armed with business-unit specifics and challenges, the sustainability board next returned to the board of directors and presented its findings. It got a green light to conduct deep dives into core businesses and create a "sustainable solutions approach" (the accelerators program) that would encompass every product line in the company. Identifying business and sustainability risks within business units allowed BASF to create market solutions that would not have happened otherwise.

In some cases, external stakeholders encourage the company to make the materiality connection. Consider Greif Inc., a supplier of industrial packaging products, such as large steel drum shipping containers, to businesses in over 50 countries. Many of Greif's customers were shifting their priorities from buying shipping containers to seeking a sustainable "shipping solution" that would help reduce emissions in their value chain. In the mid-2000s, more customers began asking Greif managers for environmental information, such as greenhouse gas emissions data. In response, the organization began lifecycle analysis (LCA) studies on its core products of steel, plastic, and fiber containers.<sup>30</sup> The analyses showed that the most effective way to improve the environmental performance of its containers was to make the containers heavier, longer-lasting, and easier to reuse. This result surprised Greif managers, who expected lighter or thin-gauged containers to be the most environmentally sound solution. Based on this discovery, Greif determined that its core business should strategically shift toward reconditioning containers and related services. The LCA studies helped Greif identify strategic environmental risks in its value chain and develop a successful strategy for integrating additional sustainability services into its business model.

BASF SE, the German chemicals giant, takes a more proactive approach. Several years ago, executives began reassessing the company's entire business model through a sustainability lens. (See Sidebar: BASF Accelerates Its Approach to Sustainability.) By 2014, the company had assessed 80% of its product portfolio — some 50,000 product applications — on a sustainability scale that ranks whether a product is exceeding, meeting, or noncompliant with certain sustainability standards.<sup>31</sup> At the top of the rankings are "accelerator" products. These sustainability all-stars make a significant contribution to the market and exceed environmental and social standards for the product category. BASF has identified 13,500 accelerator solutions in its sales portfolio. "Performer" products meet basic market standards and are followed by "transitioners," which are products actively addressing sustainability issues. At the bottom of the list are "challenged" products that carry significant

sustainability risks. Product teams develop plans to move their products up the ranks.

BASF’s reassessment of its products, and subsequent overhaul of its business, is an essential feature of its mission to “create chemistry for a sustainable future,” which has full support from the CEO. The entire effort of reviewing the business through a sustainability lens was vetted by a council of business line presidents and eventually sanctioned and supported by the company’s board.

Our 2013 report, “Sustainability’s Next Frontier,” offers evidence that 52% of companies that mostly or completely address their material sustainability issues also profit from their sustainability strategies. In contrast, only 16% of companies that pay little or no attention to material issues report that they profit from sustainability. Although some sustainability concerns are common within a given industry, material sustainability issues vary by industry. SASB’s Materiality Map tool helps companies identify relevant material issues common to their respective industries.<sup>32</sup>

### Innovate the Business Model

The previous examples offer anecdotal evidence of the strong connection between successful sustainable strategies and significant change to business models. Our survey data also offers robust quantitative evidence for this connection. In the survey for our 2013 “Innovation Bottom Line” report, we asked respondents to use the business model framework below to identify which parts of the business model they were changing in response to sustainability factors.

A surprising combination of business model elements delivered the most potent results. It wasn’t the game-changing products and businesses that one usually hears about in the context of innovation that drove sustainability value. It was the combination of innovation in the value chain and target segments that provided the strongest link: We found that 59% of companies that profited from sustainability by changing three or four business model elements pulled these two levers (see Figure 6). They often go

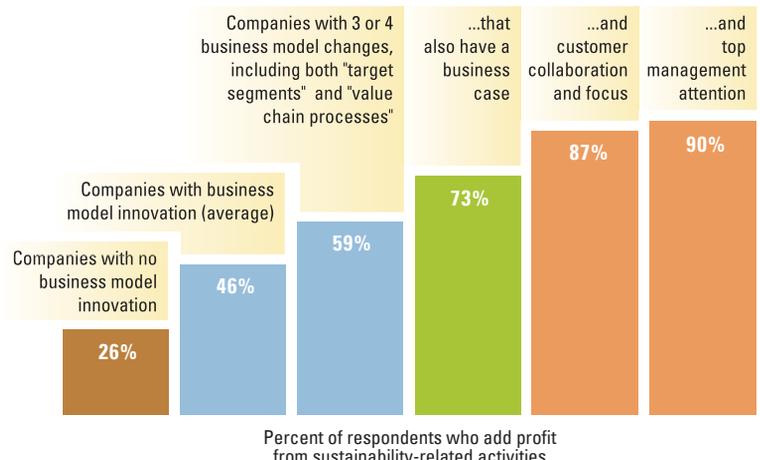
**Key Lesson #3: Set up the right organization to achieve your ambition: Building sustainability into business units doubles an organization’s chance of profiting from its sustainability activities.**

### A FRAMEWORK FOR ANALYZING BUSINESS MODELS<sup>iii</sup>

VALUE PROPOSITION	OPERATING MODEL
What are we offering to whom?	How do we profitably deliver the offering?
<ul style="list-style-type: none"> <li>• Target Segments</li> <li>• Product or Service Offering</li> <li>• Revenue Model</li> </ul>	<ul style="list-style-type: none"> <li>• Value Chain</li> <li>• Cost Model</li> <li>• Organizational Change</li> </ul>

### FIGURE 6: SUSTAINABILITY-ORIENTED BUSINESS MODEL INNOVATION

Companies that innovate in both “target segments” and “value chain processes” add the most profit from sustainability-related activities.



hand in hand to boost bottom lines. Changing the business model without a proper strategy, or effective leadership and organizational change, however,

**Key Lesson #4: Explore business model innovation opportunities:** *Nearly 50% of companies have changed their business models as a result of sustainability opportunities.*

will not lead to desired results, and could backfire without a shift in culture.

The coffee business unit at Kraft Foods (now a part of Jacobs Douwe Egbert) illustrates a constructive approach to driving sustainable practices in its supply chain.<sup>33</sup> Sustainable sourcing in its value chain was a key part of the company's strategy, according to Chris McGrath, (then) vice president for sustainability. In addition to protecting the environment and helping farm workers improve their livelihoods, applying sustainability standards from organizations such as Rainforest Alliance, Fair Trade, and UTZ Certified help boost crop yields and capacity — a critical need for a global food company dependent on reliable access to commodities.

More often than not, however, “greening” a product is not the key to building new business in target segments, as Kraft discovered with its YES Pack commercial salad-dressing containers. The innovative plastic container requires 50% less energy to produce and uses 28% less primary packaging material than its predecessors. What opened doors to commercial segments, though, was the package design. The bigger, easier-to-use pouches — which were less expensive to produce — were extremely popular with restaurants, giving Kraft a competitive advantage with lower costs.

Companies that have a well-thought-out sustainability strategy and can identify business model opportunities are more likely to build a solid foundation for their sustainability initiatives. Successful innovators focus on opportunity creation — looking at market share, potential efficiencies, competitive advantages, and innovation rather than risk, reputation, and regulatory compliance. Companies that are reactive and respond to external pressures — es-

entially “playing defense” and spending to mitigate externalities — are less likely to develop a strong business case for sustainability.

Our data shows that the most common sustainability opportunity is to develop supply chain efficiencies. Walmart, a company that built its success on global supply chain excellence, is a clear example. Motivated by sustainability concerns, the company cut carbon emissions from its supply chain trucking fleet by 22% through efficiency innovations — and in the process achieved annual cost savings of \$1 billion, boosting worldwide profits by 4%.<sup>34</sup>

### The Implementation Challenge

As with any strategic initiative, the success of a sustainability strategy depends on implementation. Companies need strong leadership to implement sustainability strategies, which often demand significant changes in how companies operate. To manage implementation, leaders need to establish KPIs tied to important tangible goals, with clear assignment of responsibilities. Without measurable goals and accountability, sustainability efforts will founder. (See Figure 7, page 13.) This is why many companies establish a separate sustainability function that can monitor and report on KPI progress to management and stakeholders.

Our survey data indicate that implementing a sustainability strategy and systems can be a challenge. On average, just 31% of middle managers are familiar with the company's sustainability goals. The failure to engage middle managers can doom a sustainability effort.

For middle managers, implementing sustainability strategy can be “a pain in the butt,” says Lawrence Pratt, senior lecturer at INCAE Business School. “Middle managers usually don't like to change things. ‘I've got my production system working just the way I, and you, want it, and now you're telling me I can't source this material or I have to change to a different process that we don't have experience with?’ Without having a clear view of the bigger picture that senior management sees, it can just look like more

work and complication.” Indeed, middle management winds up doing the heavy lifting to implement sustainability, which is why middle management is most likely to resist. Overcoming this resistance requires communication, patience, and persistence.

One company that has persisted in sustainability is General Electric Co., which launched its Ecoimagination initiative back in 2005. The program has been impressive, generating over \$200 billion in sales from 2005-2015.<sup>35</sup> Part of the initiative’s success has come from integrating the Ecoimagination approach into the new-product development phase. This overcomes many of the mid-management barriers by baking sustainability criteria in at the very beginning of new product and business discussions.

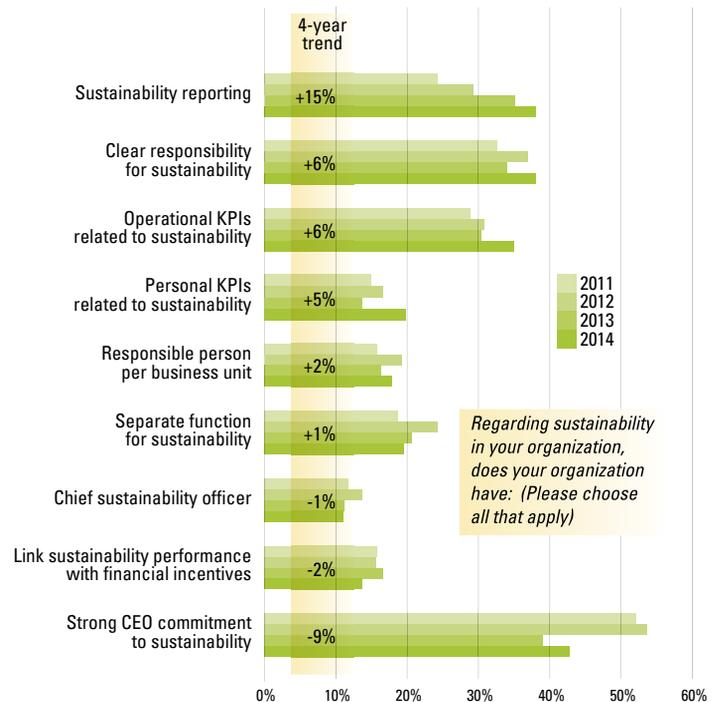
Peter Senge, a senior lecturer at the MIT Sloan School of Management, points to Unilever as another company that has persisted in its sustainability efforts and ultimately produced substantial results. “Unilever’s executives were really beating the sustainability drum in the late 1990s, but deep and extensive change takes time,” explains Senge. “When Paul Polman came in as CEO in 2012, he was able to build on the many particular initiatives that had been undertaken, like joining with Oxfam in 2002 to launch the Global Sustainable Food Lab network, and implement social, environmental, as well as business KPIs for every business unit.” Once this happened, Unilever’s middle managers had a consistent set of incentives that facilitated the success of the company’s Sustainable Living Plan initiatives. And middle managers’ efforts have a knock-on effect. As Senge puts it, “The people on the front lines perceive that the company is starting to walk its talk.” It’s no wonder that Unilever has led the GlobeScan/SustainAbility annual survey of Global Corporate Sustainability Leaders for the last six years.<sup>36</sup>

## Build a Business Case

Adapting one’s business model to exploit material sustainability opportunities will work in the long term only if one can establish a business case for these efforts. A major hurdle for many companies is crafting an approach that improves the environ-

## FIGURE 7: SUSTAINABLE BUSINESS PRACTICES

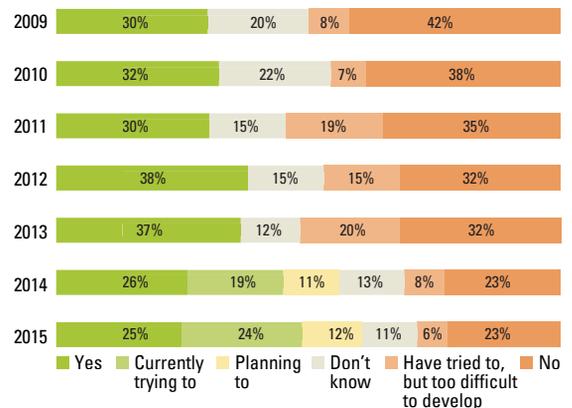
More organizations report on sustainability and embed sustainability practices with clear targets.



## FIGURE 8: BUILDING A BUSINESS CASE

While most companies struggle to develop a clear business case for sustainability, more companies are trying to develop one.

Overall, has your organization developed a clear business case or proven value proposition for its approach to sustainability?\*



\*In 2014, we changed the optional answers for this question to gather more information about those companies that were *trying* to develop a business case for sustainability.

mental and social impact of their operations while simultaneously producing business value. “You can keep 10 people busy on environmental and social issues, doing wonderful things that look great on a CSR [corporate social responsibility] report, but not necessarily creating any value,” observes IN-CAE’s Pratt. Without a sustainability strategy that is relevant to the core business and that advances the overall corporate strategy, companies are far less likely to profit from their sustainability efforts,

**Key Lesson #5: Develop a clear business case for sustainability:** *While 60% of companies have a sustainability strategy, only 25% have developed a clear business case for their sustainability efforts.*

and meaningful strategic change will stall. Figure 8 shows that over a seven-year period, a minority of companies successfully developed a business case for their sustainability efforts.

Building a business case for sustainable business practices depends in large part on the scale of those practices in the organization. Footwear and apparel company Timberland LLC leverages industry standards to tie sustainability efforts tightly to the bottom line. The company developed its own “nutrition label” that it calls its Green Index. The index measures the climate impact, chemicals, and resources consumed in the manufacture of certain footwear products. Using the index, Timberland can compare a product’s score to its profit margin. “I can find out if shoes with higher environmental impact are better or worse for margin,” says Betsy Blaisdell, (then) senior manager of environmental stewardship at Timberland.<sup>37</sup> Sustainable products “may be more expensive to produce, but generate better margins.”

Timberland’s Green Index spurred the creation of the Higg Index at the Sustainable Apparel Coalition, a

collaborative industry wide initiative to measure the environmental and social impact of apparel products. According to Blaisdell, suppliers were frequently saying they had “green” products, but there was no way to assess the claims or measure them against other products. Now, with the Higg Index, “brands, retailers and facilities of all sizes, at every stage” [can] “measure their environmental and social and labor impacts and identify areas for improvement,” according to the Apparel Coalition’s website.<sup>38</sup>

Hilton Worldwide Holdings faced similar decisions in its procurement function, where the business case for buying products with different levels of green certification and different pricing structures was less than straightforward. “If you have the most sustainable product on the market but it costs 50% more than a non-sustainable product,” said William Kornegay, senior vice president supply management, Hilton Worldwide, “it’s really about what our end user is willing to pay for that experience. And most of the end users that we have ... would not be willing to pay a 50% premium for the ability to say it was sustainable.”<sup>39</sup>

Hilton, like Timberland, began working with others to create a coalition of stakeholders to invent tools to help build the business case for procurement professionals. It worked with the global consultancy BSR to develop the Center for Sustainable Procurement, which evolved into the Procurement Leadership Group in 2015. With its mission to bring together procurement professionals across industries to explore and innovate leading approaches to supply chain sustainability that create business value and positive social and environmental impacts,<sup>40</sup> the group’s members include Hilton Worldwide, in addition to Allstate Corporation, Starbucks, Ocean Spray Cranberries Inc., Bank of America, and Anheuser Busch.

Establishing a business case for sustainable business practices is a necessary feature of some sustainability strategies, but executives need to watch out for building a business case that justifies only incremental sustainability investments. According to CERES’ Lubber, “There are a lot of companies who are

going step by step. They're not changing their business model at the outset, but they're saying, 'We're going to change the way we use water. And in the end, it's going to save money, and it's clearly good for the environment and society,' and so on. They may not be changing their business model, but they may be changing how they use that resource." Some of these companies use "business case" to refer to a positive return on investment for a specific sustainability project. This is a narrow view of sustainability. While incremental improvements to the existing business model can provide sustainability returns, the company may be overlooking broader, more systemic innovation opportunities that promise a bigger impact, says Lubber.

Survey respondents who say that their organization profits from sustainability are almost 200% more likely to have a business case.<sup>41</sup> That doesn't mean that companies with successful sustainable business practices always start with a business case, however. As Campbell's Dave Stangis explains, "If I'm spending my days and time and my efforts on trying to build a business case, convincing the company to be more sustainable or to think like me, I think I'm wasting my time." Stangis sees a trend to go ahead even without a solid case — a "just do it" zeitgeist, more akin to startup entrepreneurs than efficiency-focused managers. A business case may emerge from the process of exploring sustainable solutions, from learning what is possible by taking action. In certain respects, this is what happened when Greif discovered a business case for improving the longevity and reusability of its containers.

## Getting the Board on Board

Understanding investor priorities is an important responsibility for a company's top executives and its board of directors. Based on their understanding of investor interests, an organization's leadership will often steer corporate strategy and behavior in one direction rather than another. If executives believe that their investors prioritize short-term profits, they will tend to organize sales, cost management, and research and development activities to maximize near-term gains rather than long-term

**Key Lesson #6: Get the board of directors on board: 86% of respondents agreed that boards should play a strong role in their company's sustainability efforts, but only 48% say their CEOs are engaged, and fewer (30%) agreed that their sustainability efforts had strong board-level oversight.**

investments. With greater numbers of investors making investment decisions considering sustainability performance, it is time for corporate leaders to recognize that an increasing number of shareholders are (literally) invested in whether a company's ESG activities connect with its financial success. As Figure 7 shows, CEO commitment to sustainability dropped 9% between 2011 and 2014.

As stewards of the company, the board of directors can occupy a central role in supporting sustainability strategies, but they often don't. In our "Investing for a Sustainable Future" report, 86% of survey respondents agreed that boards should play a strong role in their company's sustainability efforts, but only 48% said their CEOs were engaged, and just 30% agreed that their sustainability efforts had strong board-level oversight. A 2014 United Nations Environment Programme Finance Initiative study of 60,000 businesses found that only 2% of companies that report on ESG information had a director with responsibility for sustainability.<sup>42</sup> Only 374 companies had a sustainability committee that reported directly to the board, and none of those committees included board members. Another research review showed that no more than 10% of U.S. public company boards have a committee dedicated solely to corporate responsibility.<sup>43</sup>

Improving board engagement on sustainability issues faces several hurdles, including the unclear financial impact of developing sustainable business practices, competing priorities, a lack of sustainability expertise among board members, and short-termism. Overcoming these barriers involves

more than just a change of view. Consider the latter two issues, for example: Improving directors' expertise can be accomplished through training (in part!), new appointments to the board, or accessing external expertise through external/independent advisory boards. ESG considerations can be integrated with director responsibilities, either by forming new committees dedicated to sustainability or by instilling ESG duties within committees.

Overcoming short-termism is a significant obstacle. Many directors make two problematic assumptions about their fiduciary duty: that their primary fiduciary duty is to maximize shareholder value and that short-term profits are what shareholders care most about. In the past few years, a growing number of academics and legal entities, along with at least one business, have repudiated the primacy of shareholder value for board directors. As Bob Eccles and Tim Youmans write:

*What would it look like for the board of directors of a major corporation to consider, in a meaningful or material way, stakeholders beyond its shareholders? To be sure, many have argued that companies ought to look beyond their shareholders. But the specifics about what that would like have remained an exercise in speculation. Until now.*

*To the best of our knowledge, Atlas Copco — a Swedish industrial products company with 10.9 billion euros [\$12B] in 2015 revenues — has become the first listed company whose board of directors has made an explicit statement identifying a significant connection between its business goals and the well-being of stakeholders other than its shareholders...<sup>44</sup>*

The authors then quote from Atlas Copco's 2015 annual report:

*Atlas Copco is registered in Sweden and is legally governed by the Swedish Companies Act (2005:551). This act requires that the Board of Directors governs the company to be profitable and create value for its shareholders. However,*

*Atlas Copco recognizes going beyond this, extending it to integrating sustainability into its business creates long-term value for all stakeholders, which is ultimately in the best interest of the company, the shareholders, and society. The significant stakeholder audience, as outlined in the Atlas Copco Business Code of Practice, includes representatives of society, employees, customers, business partners, and shareholders.*

*The Business Code of Practice is the central guiding policy for Atlas Copco, and is owned by the Board of Directors. Its commitment goes beyond the requirements of legal compliance, to support voluntary international ethical guidelines. These include the United Nations International Bill of Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, the ten principles of the United Global Compact, and OECD's Guidelines for Multinational Enterprises...<sup>45</sup>*

There is no clearer written expression of the importance of a company's stakeholders than a statement to that effect signed by the chairman of the board.

Atlas Copco is clearly an exceptional case. In 2015, only 36% of survey respondents agreed that sustainability has a permanent place on their company's top management agenda. While this percentage has increased over time (rising from 24% in 2010), it is another signal that the importance of corporate sustainability to senior management remains a giant work in progress. Companies that have sustainability on their top management agenda are 55% more likely to have a profitable business case for their sustainability practices — but these companies are in the minority.

## Engaging Shareholders

Once a business has developed a sustainability strategy that focuses on material business issues, has a business case for addressing them, and has board-level backing for its sustainability agenda, the next step in capturing value is sharing its sustainability story with interested stakeholders. "At the end of

the day, investors want to know about growth, efficiency, and risk,” says Antoni Ballabriga, global head of responsible business at Banco Bilbao Vizcaya Argentaria (BBVA), the Spanish banking group. “Sustainability is central to each.”

With growing interest among investors about corporate performance on ESG factors, executives have a robust opportunity to communicate with their stakeholders. A 2015 survey conducted by *MIT Sloan Management Review* and the National Investor Relations Institute found, however, that only 24% of surveyed investor relations (IR) professionals are asked by their organizations to tell investors about the value of sustainability to the company’s bottom line. Close to 40% aren’t given direction on sustainability reporting at all. Nearly 80% don’t regularly include sustainability talking points in investor presentations, and almost half of respondents from IR departments don’t believe that a sustainability strategy is necessary to remain competitive in their industry.<sup>46</sup>

Similarly, a 2014 Nasdaq Advisory Services study of 500 publicly traded companies revealed that barely one-fifth of U.S. companies were integrating sustainability into their investor communications. Although the figure was higher in Europe, the percentage was close to, but still less than, half.<sup>47</sup> “Sustainability has always been associated with activism, and very few investor relations professionals understand its importance,” says Patricia Styles, a principal at Next Level Ventures, a venture capital firm. “On top of that, investor relations departments are overwhelmed with questionnaires and fear a never-ending time commitment if they get more of them.”

To get an upper hand in shareholder outreach, Ballabriga established a close working relationship between his sustainability group and IR to help develop a succinct sustainability value story for BBVA. The effort began as an information exchange, in which IR would reach out to Ballabriga’s group when investors asked specific questions. As confidence built and investor demands increased, IR started asking Ballabriga to join earnings calls and other meetings with investors. Today, the relationship is a partnership, and the groups have jointly developed

a process to create and update the investment story of how sustainability creates value and should be reflected in its share price.

**Key Lesson #7: Develop a compelling value-creation story for investors:** *While 75% of executives in investment companies consider sustainability performance to be critical when making investment decisions, only 60% of corporate executives believe investors care about sustainability performance.*

“It’s been an evolution,” says Ballabriga. “We started as information suppliers. And now we really are a partner, and the company looks at communicating sustainability as a real opportunity.”

### **Embrace Collaboration Within Your Ecosystem**

Companies that are walking the talk on sustainability are much more likely than other companies to be involved in more collaborations with a more diverse group of collaborators and identify more reasons to collaborate.<sup>48</sup> If a company takes sustainability seriously, it is much more likely to collaborate strategically to achieve its sustainability aims.

**Key Lesson #8: Collaborate with a variety of stakeholders to drive strategic change:** *90% of executives believe collaboration is essential to sustainability success, but only 47% say their companies collaborate strategically.*

For example, companies with sustainability as a top management agenda item are more than twice as likely to collaborate strategically than companies in which sustainability is only somewhat or not important. In addition, those companies that have sustainability as a top management item and that collaborate strategically are up to five times more likely to do the preparation required to ensure successful outcomes. This includes steps like clearly defining roles, having reporting frameworks in place, and developing clear governance structures for partnerships.<sup>49</sup>

Before 2000, 40% of companies we surveyed had no collaborations on sustainability efforts, and 19% had just one to three collaborations. In 2014, we found that most companies were engaged in some form of sustainability collaboration and fully 16% of respondents said they expected to have more than 50 collaborations in the future. (See Figure 8.) It is notable that 61% of companies that collaborate on sustainability efforts rate the collaborations as very or quite successful.<sup>50</sup>

Collaboration helps companies expand their understanding and enable innovation and value creation.

Strategic needs are the most common motivation for entering into these partnerships. When Stonyfield Farm Inc., the Vermont-based yogurt manufacturer, faced a strategic challenge — uncertainty in the supply of its organic banana puree — they solved it through transformational collaborations that have changed the face of how its suppliers go to market. “We had been buying organic, rare bananas, but the growers historically relied on downstream processors to make them into puree,” says Wood Turner, (then) vice president of sustainability innovation at Stonyfield.<sup>51</sup> “There has been considerable instability on the part of those downstream processors, which made our supply chain unreliable.”

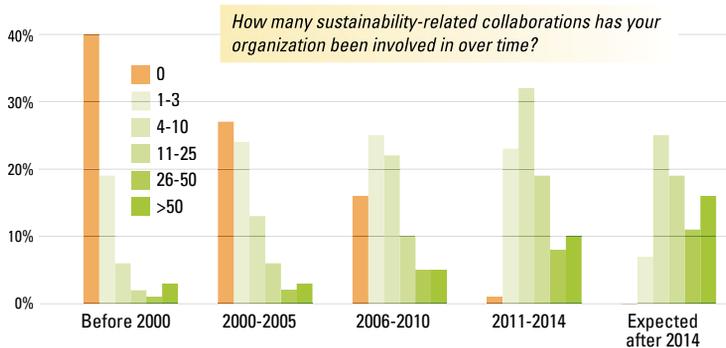
To address the supply chain challenge, Stonyfield worked with the nonprofit Sustainable Food Lab to develop small-scale fruit-processing operations. “We decided — in collaboration with the growers — to disrupt their business model by installing small-scale processing capability at the grower-association level,” explains Turner. “Growers are now not just responsible for bananas but also for processing and selling them to the global marketplace.” The collaboration solved Stonyfield’s supply issue and gave the growers more independence and access to a wider market.

Netafim Ltd. is another example of strategic needs driving transformational collaborations. Water is an increasingly precious resource, and its scarcity is mounting in the face of climate change and a world population approaching 8 billion. Founded 60 years ago on a small kibbutz in the Israeli desert, Netafim today is the world’s largest drip irrigation company. “We introduced drip irrigation to agriculture, as opposed to flood or sprinkle irrigation,” says Naty Barak, chief sustainability officer. “At the time we were struggling. Water was very limited, but the concept of drip irrigation — which is orders of magnitude more efficient — was unknown and required a great deal of education and awareness. To make progress, we partnered with government bodies, academia, and even with a small NGO.”

After Netafim achieved success in Israel and established its business in the developed world, it turned its attention to developing countries, which now

**FIGURE 9: SUSTAINABILITY-RELATED COLLABORATIONS OVER TIME**

Sustainability-related collaborations have dramatically increased over time.



account for the majority of its business. Netafim's fastest-growing market is India, where the company's average customer owns only two or three acres. "We're talking about small farmers, and there is no way we can reach them on our own," says Barak. "We need partners who know the farmers and the culture and can help us sell to and train them. For that we need government partners, NGOs, and financing organizations such as the IFC or World Bank. There's no way we can do it alone."

## The Big Why

In our interviews with executives over the past eight years, we have heard many jump past the question about why their company should become more sustainable, as if there were a tacit understanding about why sustainability matters to them and to their organization: It might matter to regulators, and it might matter to their customers, and it might matter to their investors, and those are reasons enough. Or as, INCAE's Pratt suggests, "When you ask managers the question, 'Why they are doing it?' the answer is, 'Well, I'm doing it because all my competitors are doing it.'" Executives then look for practical advice about what they should do about sustainability and how they should do it. Not why. That's a given.

But the "why" and the "who" matter as much as the "what" and the "how." The organizations that reassess their business model and discover new opportunities, like Unilever, Patagonia, BASF, and Greif, are able to invent or discover why sustainability is material to their business and why it is a present-day concern — why it is both important and urgent. They forge a link between strategic necessity and strategic opportunity.

Unfortunately, these companies represent a small portion of the business community. Many companies, indeed most companies, do not seek out reasons to embed sustainability in their business models and make sustainability material to their business. One reason for this state of affairs is that identifying profitable sustainability opportunities typically involves looking at one's business in a new

way and then erecting new organizational structures, developing new expertise and processes, and shifting mindsets. All of these are well-known challenges with the process of change management. But as Bhattacharya and Polman discuss, embedding sustainability isn't simply a matter of managing a change initiative; it often involves changing the entire orientation of the company.<sup>52</sup> Few companies are willing to make this massive shift.

What's more, many business leaders continue to see major sustainability issues, especially those outlined in the UN Sustainability Development Goals for 2030 — e.g., reducing climate change, wealth inequality, and poverty levels — as concerns for governments, not the private sector.<sup>53</sup> Many corporate leaders act as if it is government's job to figure out how to address these critical societal goals and translate the government's approach into business norms and regulations. As a result, major corporations often don't tackle sustainability issues as issues that truly matter to their business success. To be sure, more companies are beginning to make commitments to address some of the UN's sustainable development goals, and corporate leaders in the sustainability movement are explicitly connecting their corporate behavior to these goals,<sup>54</sup> but a tremendous gap remains between corporate commitment and action.

Many companies simply don't plan their corporate behavior around objectives that are decades away. The time horizon for the impact of climate change, for instance, is simply beyond the scope of many business's planning periods. Mark Carney, governor of the Bank of England, describes this as a tragedy of the horizon, in which the impact of climate change will become an urgent business problem only after it is too late to do anything about it.<sup>55</sup>

The arrival of a new U.S. administration that both rejects climate change and appears to have adopted a policy of economic nationalism that embraces dramatic deregulation is raising the ante for businesses everywhere to accelerate their sustainability efforts. Seasoned managers will recognize we've been down this path before. In the 1980s, the Reagan ad-

ministration pursued similar policies designed to get regulators “off the backs of business.” Many executives supported those efforts, assuming that if the regulations went away their sustainability problems would go away too. But we now know that the problems didn’t go away. Instead, they festered, and new forces from civil society evolved to persuade companies to confront the problems.<sup>56</sup> The result was the very emergence of corporate social responsibility and business sustainability that this report chronicles.

Whatever the sustainable success achieved by an individual corporation, the ultimate test of industry’s collective success is whether it contributes meaningfully and constructively to our common future, a future we would wish for our children, or anyone’s children. It is not clear at all, however, that progressive action is happening fast enough or among enough companies to pass that test. It is time to deepen and accelerate corporate sustainability efforts.

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## Appendix: A Brief Overview of MIT SMR and BCG Research, 2008-2016

In 2010, our first report, *The Business of Sustainability*, revealed that, despite the economic recession, many companies (62%) were maintaining or increasing their commitments to sustainability in terms of management attention and investment. (Two years later, that percentage had risen to 94%.) The leading companies had three characteristics: They understood and articulated sustainability's impact on their organization; they created a robust case for sustainability; and they integrated their sustainability strategy throughout the business.

*Sustainability: The 'Embracers' Seize Advantage*, our 2011 report, identified and analyzed a group of companies that had a business case for sustainability, believed sustainability to be necessary to be competitive, and had placed sustainability permanently on their management agenda. This group evinced a distinct set of characteristics: They tended to act without complete information; balanced a long-term vision with concrete near-term wins; drove sustainability top-down and bottom up; de-siloed sustainability; measured everything; valued intangible benefits seriously; and tried to be authentic and transparent — internally and externally.

*Sustainability Nears a Tipping Point* (2012) demonstrated that seven out of 10 companies had put sustainability on the management agenda only in the past six years, with many respondents saying that that had happened in the past two years. We also began exploring the characteristics of organizations that were profiting from their sustainability activities and found that many of these companies were changing their business models in response to sustainability-related factors. These companies (termed “harvesters” in the report) also changed their organizational structures — for example, embedding a chief sustainability officer in the organization. Harvesters also altered their operations to include more collaborations with stakeholders both inside and outside the company.

*The Innovation Bottom Line* (2013) offered more insight into the relationship between sustainability-related business model change and sustainability-related profitability. These findings showed that bolder changes to the business model correlated more strongly with profiting from sustainability. But, on the whole, a strong majority of companies struggled to build a business case for sustainability, a finding that persisted in each subsequent year. Some of the practices that helped sustainability-driven innovators profit include leading from the top and integrating sustainability efforts; measuring and tracking sustainability goals and performance; and understanding both how customers think about sustainability and what they are willing to pay for in connection with sustainable products or services. In addition, as with prior years, we found that leading companies collaborated with individuals, customers, businesses, and groups beyond the boundaries of the company.

It became clear that, on the one hand, most companies had leaders who said that sustainability was both necessary to be competitive and an important source of brand value, but, on the other hand, many companies were not profiting from sustainability. So in *Sustainability's Next Frontier* (2013), we explored the question of what differentiates those companies that say sustainability issues are important to their organization and those companies that say they are addressing those issues. We found that companies that are “walking the talk” on sustainability are more likely to have a sustainability strategy, have higher levels of collaboration, and change their business models in response to their sustainability efforts. In concert with prior years, they also take care to measure their sustainability performance, enjoy the support of top management, and have developed a clear sustainability business case.

By this time, the issue of collaboration had emerged as a consistent theme across several reports — not

surprisingly, as many sustainability issues are collective action problems. Our 2015 *Joining Forces: Collaboration and Leadership for Sustainability* focused on collaboration issues, and we joined with the UN Global Compact to explore this topic along with the role of the board in defining and otherwise influencing a company's sustainability agenda. A critical finding was the widely held belief among managers that their board of directors was not adequately engaged with the company's sustainability agenda. The keys to success for those companies that were actively collaborating with external stakeholders included having experience and prior success with internal collaborations; securing the engagement of their boards; understanding the need for a shared language and respect for others; and doing due diligence before entering a collaborative venture.

That research led us to consider the role of investors as a potential source of corporate influence. Certainly, investors are an important concern for the boards, which tend to view shareholder interests as a top priority. Our 2016 report, *Investing for a Sustainable Future*, revealed that investors care more about sustainability than many executives believe, and are willing to take action if they do not see sustainability issues being effectively addressed. The research also yielded advice for both companies and investors about how to work together. Companies should not underestimate the importance of sustainability to investors, and they should incorporate sustainability into their corporate sustainability strategy in a multistep process. Investors would do well to consider mid- and long-term investment strategies in the context of sustainability and to develop valuation methods that account for nonfinancial sustainability issues. In addition, we found that although sustainability indices can be misleading and should not be relied on, actively engaging in discussions on sustainability topics with companies and making expectations transparent can yield critical information for decision-making.

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