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United Nations Global Compact

A New Era of Sustainability

UN Global Compact-Accenture CEO Study 2010

Executive summary

Journey to a new era of sustainability

The sustainability landscape is changing

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 headlines of our survey of 766 United Nations Global Compact (UNGC) member CEOs, extensive interviews with an additional 50 member CEOs and further interviews with more than 50 business and civil society leaders. The scale of this research is such that it represents the largest such study of CEOs ever conducted on the topic of sustainability.

In the course of our survey and conversations with CEOs, we have witnessed a fundamental shift since the last Global Compact survey in 2007. Then, sustainability was just emerging on the periphery of business issues, an increasing concern that was beginning to reshape the rules of competition. Three years later, sustainability is truly top-of-mind for CEOs around the world. While environmental, social and governance challenges continue to grow and CEOs wrestle with competing 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.

After the storm: Rebuilding trust

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

The drivers and approaches to sustainability are changing

In 2007, education was the top development issue on the minds of CEOs. Concerns about education are still prevalent in 2010 and focused on the failure of education systems, talent pipelines and the capabilities of future leaders to manage sustainability. Seventy-two percent of executives identified education as one of the critical development issues for the future success of their business. Perhaps unsurprisingly, climate change was second at 66 percent as concern about greenhouse gas emissions continues to grow. However, in our conversations with CEOs, we found that a broader set of issues are starting to appear on the corporate

radar. Resource scarcity (water in particular) and health issues are of increasing concern.

The ways in which CEOs are addressing sustainability issues are also changing. Our research reveals three key ways in which approaches and strategies are shifting as we move toward a new era of sustainability:

1. The consumer is (or will be) king

End consumers as well as business and government customers are increasingly driving a company's strategy for developing sustainable products and services. CEOs identify the consumer as the most important stakeholder in influencing the way in which they will manage societal expectations over the next five years: 58 percent of survey respondents selected the consumer among their most important stakeholders, even above employees (45 percent) and governments (39 percent).

2. Importance of technology and innovation

CEOs are aware of the critical role that innovative, leading-edge technologies are playing in advancing the sustainability agenda—in areas such as climate change (e.g., using smart technologies such as grids and meters); and in terms of increased transparency through social media platforms. Ninety-one percent of CEOs reported that their company would employ new technologies (e.g., renewable energy, energy efficiency, information and communications technology) to help meet their sustainability goals over the next five years.

3. Collaboration is critical

Across the board, the CEOs we spoke to confirmed that partnerships and collaboration (e.g., with suppliers, non-governmental organizations, government agencies, etc.) are now a critical element of their approach to sustainability issues. Businesses realize that today's global challenges are too broad and too complex to go it alone. Seventy-eight percent of CEOs believe that companies should engage in industry collaborations and multi-stakeholder partnerships to address development goals. Nevertheless, while CEOs believe civil society is an essential partner in tackling these issues, they believe non-governmental organizations (NGOs) are declining in their influence on corporate sustainability agendas. Just 15 percent of CEOs identified NGOs as one of the key stakeholders influencing their approach to sustainability, down 12 percent from 2007.

A new sustainability era on the horizon

Our survey found widespread agreement among CEOs about what the next era of sustainability will look like: It is one where sustainability is not only a separate strategic initiative, but something fully integrated into the strategy and operations of a company. As one emerging economy CEO told us, "Currently, the burning issue is how to better incorporate sustainability into daily practice."

CEOs see that a new era of sustainability will entail a number of business imperatives and change the face of competition. For example, companies will need to develop a broader sense of what value creation means to society as a whole.

Businesses will have to grapple with a new concept of value that moves beyond a focus purely on profit and incorporates nonfinancial metrics, putting a new onus on the ability to measure and communicate progress.

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

Challenges to overcome: From strategy to execution

CEOs believe that *execution* is now the real challenge to bringing about the new era of sustainability. Confidence among business leaders about their progress toward this new era is strong, and their companies are taking concrete steps toward embedded sustainability. Eighty-one percent of CEOs—compared to just 50 percent in 2007—stated that sustainability issues are now fully embedded into the strategy and operations of their company. For example, we saw cases of companies beginning to integrate sustainability issues into their executive compensation packages, as well as design and innovation functions, more than in 2007.

However, our conversations suggest that while sustainability has clearly become part and parcel of how many businesses operate, it has yet to permeate all elements of core business—that is, into capabilities, processes and systems. In particular, the difficulty of implementation, especially across supply chains and subsidiaries, is seen by CEOs as the top barrier to the full integration of sustainability. Our research finds a significant performance gap between those CEOs who agree that sustainability should be embedded throughout their subsidiaries (91 percent) and supply chain (88 percent), and those who report their company is already doing so (59 percent and 54 percent, respectively). Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains some way off.

Ensuring the right external conditions

How long will it take before the majority of companies worldwide reach this new era in which sustainability is fully integrated across their global business footprint? Fifty-four percent of CEOs surveyed feel that this tipping point is only a decade away—and 80 percent believe it will occur within 15 years—an optimistic view unthinkable in 2007 and testament to the sea-change taking place. However, CEOs see that progress toward that destination is by no means guaranteed, or irreversible, and will require them to overcome several serious challenges, both through their own actions and in collaboration with stakeholders. These challenges include:

Investor uncertainty: Many CEOs believe that the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor performance on sustainability issues into valuation models.

Consumer uncertainty: The consumer may be king when it comes to driving profitable sustainability, but the CEOs surveyed are looking for clearer signals that sustainability actually drives buying behaviors. Similarly, they are unclear as to the extent to which sustainability concerns will drive purchasing decisions by businesses and governments.

Regulatory uncertainty: Across the board, CEOs spoke of the need for greater clarity around the shape and scope of future regulation in response to regulatory challenges.

Accelerating the tipping point: Business action is needed

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

1. Actively shaping consumer and customer awareness, attitudes and needs. To create a market for sustainable products and services, CEOs see the need to increase the provision of consumer information and set clear standards, as well as direct government incentives and investment in areas such as energy, transport and public infrastructure.

2. Generating new knowledge, skills and mindsets for sustainable development. Although businesses believe that formal educational institutions and business schools need to do more, CEOs also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.

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

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

The role of the UN Global Compact: A forum for education and sharing of best practices

CEOs are more aware than ever that their ability to take the next step along the journey to integrated sustainability depends on partnerships, collaboration and joint efforts with governments and with private entities such as business schools. No one alone has all the answers.

The UN Global Compact has a vital role to play in bringing different stakeholders together in dialogue and the pursuit of shared goals. This represents a significant development in 2010 compared to the last survey in 2007. Then, CEOs saw the UNGC's role as one primarily focused on making the business case for sustainability and setting future strategic direction. While executives still see this role as important, in 2010 that role has been extended to help companies share best practices as they work to improve their ability to deliver on these critical execution challenges.

Two-thirds of the CEOs we surveyed are looking to the UNGC as a forum for the sharing of best practices and emerging ideas on sustainability. Just over half are also seeking guidance from the UNGC about execution of a sustainability strategy.

A similar number are looking for the UNGC to facilitate other kinds of dialogue and collaboration, such as working with business schools and educators to shape the next generation of leaders or continuing to partner with the investment community. Both of these findings are a strong reinforcement of the value of the UNGC's pioneering work in founding the Principles for Responsible Management Education and the Principles for Responsible Investment, and a mandate to go further.

These findings underscore the fact that companies are taking the long view when it comes to sustainability. There are no easy answers, and the journey will not necessarily be a short one. But, arguably, the modern era has never before seen such a high level of executive commitment to the environmental, social and corporate governance agenda.

UNGC member CEOs are acutely aware of the power their companies have to change the world—but similarly conscious that they cannot go it alone.

Executives are willing to step up to the challenges ahead and they recognize that—as the Global Compact celebrates its tenth anniversary—this is "the end of the beginning" and not "the beginning of the end" in the transition to a new era of sustainability.

CEO opinion: by the numbers

93%

93% of CEOs believe that sustainability issues will be critical to the future success of their business.

72%

72% of CEOs cite “brand, trust and reputation” as one of the top three factors driving them to take action on sustainability issues. Revenue growth and cost reduction is second with 44%.

72%

72% of CEOs see education as the global development issue most critical to address for the future success of their business. Climate change is second with 66%.

58%

58% of CEOs identify consumers as the most important stakeholder group that will impact the way they manage societal expectations. Employees were second with 45%.

91%

91% of CEOs report that their company will employ new technologies (e.g., renewable energy, energy efficiency, information and communication technologies) to address sustainability issues over the next five years.

96%

96% of CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company (up from 72% in 2007).

49%

49% of CEOs cite complexity of implementation across functions as the most significant barrier to implementing an integrated, company-wide approach to sustainability. Competing strategic priorities is second with 48%.

88%

88% of CEOs believe that they should be integrating sustainability through their supply chain. Only 54% believe that this has been achieved within their company. An almost identical performance gap is seen for subsidiaries.

86%

86% of CEOs see “accurate valuation by investors of sustainability in long-term investments” as important to reaching a tipping point in sustainability.

64%

64% of CEOs see the most important role of the UN Global Compact as sharing examples of best and emerging practices on sustainability. Guidance on implementation is second with 51%.