

CORPORATE SUSTAINABILITY LEADERSHIP AT THE EDGE



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WANTED: Business leaders and companies able to restore growth, create jobs and increase access to products, services and livelihood opportunities in a resource-constrained and low-trust world.

'Business as usual' is totally inadequate to meet this challenge. So too is incremental change at the margin. Transformational or systemic change is necessary, and in its absence our shared prosperity and stability are at risk. Future generations will look at today's business leaders as having failed dismally in their core responsibility to create long-term wealth; the kind of wealth in which financial capital is only one asset alongside human, natural and social capital, and short-term profit is a means not the end.

The achievement of transformational change will be impossible without substantial innovation in business models, science and technology, financing mechanisms, market incentives and governance institutions. These will all require new types of business leadership, alongside political leadership.

Corporate Sustainability Leadership at the edge describes three mutually reinforcing levels of business leadership that have the potential to harness the wealth creating capabilities and global networks of private enterprise to deliver long-term value for both shareholders and society. It highlights some of the practices being undertaken by pioneering companies to achieve these three levels of leadership. And it calls on corporate leaders in every sector and country to ask themselves three questions:

- 1) Are we developing the necessary **Individual Leadership Skills** to drive change?
- 2) Have we established adequate **Institutional Leadership Structures** within our companies to learn from stakeholders and embed change?
- 3) Are we investing sufficiently in **Interactive Leadership Platforms** in partnership with others beyond our own companies to scale change?

The business leaders who can answer 'yes' to these questions are part of a small vanguard who are redefining capitalism for the 21st Century. In the lead up to the twentieth Anniversary of the [Rio Earth Summit](#) in June 2012 and beyond, many more business leaders and board directors need to learn from and emulate these corporate pioneers. Governments need to create better enabling environments to support them. Academic institutions, non-governmental organizations and the media need to engage with them. And investors and consumers need to reward them.

What is the sustainability leadership challenge?

Our shared prosperity and that of future generations is at risk. Over the past half century impressive economic gains, technological innovations and political progress have benefited citizens in almost every country around the world. Today these advances are under threat. They are being undermined by growing public debt and private indebtedness, and by increasing levels of inequality both within nations and between them. They are being challenged by the relentless march of climate change, water scarcity, energy and food insecurity, and ecosystem fragility, which threaten to cause economic and political instability as well as ecological discontinuities. Urbanization, migration, global population growth, and demographic shifts caused by aging populations in some countries and high levels of youth unemployment in others complicate the situation further.

In the face of these immense challenges there is a crisis of public and private leadership. Well-documented examples of governance gaps, political partisanship, perverse incentives and market failures continue to obstruct the achievement of more progressive public policies and more sustainable business practices. From the [Arab Spring](#) to [Occupy Wall Street](#), citizens are losing faith in their political and economic leaders. In many countries, public trust in governments and corporations has been in decline for several decades, but the global financial crisis, commodity price spikes, rising economic insecurity, and almost daily exposés of political and corporate scandals have further undermined this trust. Civil society organizations and millions of individual citizens around the world, with unprecedented communications and organizing capacity via the Internet and social media, are demanding governments and companies to be more effective, more accountable, and more transparent.

While governments and politicians must take overall responsibility for restoring and ensuring long-term prosperity, companies – and in particular the corporate executives who lead them and the board directors who govern them – also have an essential role to play.

How is business responding to the sustainability challenge?

A growing number of private enterprises have heeded the call to action. In the twenty years since the Rio Earth Summit in 1992 thousands of companies have put sustainability on the corporate agenda. While compliance and community engagement remain important, many companies have moved far beyond complying with environmental and social regulations and supporting corporate philanthropy. They are embedding non-financial risks and opportunities more firmly into their core business strategies and into the management and governance of their value chains from suppliers to consumers.

A small group of pioneers are making public commitments and setting ambitious goals to deliver commercially viable solutions to complex global challenges. They are doing so in a manner that explicitly aims to enhance both corporate competitiveness and social, environmental and economic progress. Some notable examples include Unilever's [Sustainable Living Plan](#); Nike's [Considered Design](#) concept; DuPont's corporate strategy for [Sustainable Growth](#); General Electric's [Ecomagination](#) and [Healthymagination](#) businesses; Walmart's [Sustainability Index](#); Marks & Spencer's [Plan A](#) commitments; IBM's imperatives for a [Smarter Planet](#); Nestlé's [Creating Shared Value](#) framework; and Johnson & Johnson's [Healthy Future](#) plan. Most of these strategic and often company-wide commitments have been publicly announced within the past five years.

These and other corporate pioneers are leading four essential trends that have the potential to fundamentally transform the way we do business:

- They are leading the transition towards [green growth](#) and [a green economy](#) by creating more resource efficient and resilient value chains, that enable the production and consumption of more or better products and services using less natural resources. Companies in energy, agriculture, construction, fisheries, forests, manufacturing, tourism, transport, water and waste management will have a particularly important role to play in this transition.

- They are developing more [inclusive business models and ecosystems](#) that aim to increase access to products, services and livelihood opportunities among low-income producers, employees and consumers.
- They are voluntarily spreading [international norms and standards](#) in areas such as human rights, labour, anti-corruption and the environment.
- They are holding themselves [publicly accountable](#) for measuring and reporting their non-financial as well as their financial performance. [CorporateRegister](#) has identified about 8,500 companies from over 170 countries that have produced reports on their sustainability or corporate responsibility performance. A small number of companies have started to do [integrated reporting](#), combining their sustainability and financial reports.

There is no doubt that progress has been made, but it is not nearly enough. Corporate sustainability leadership is happening at neither the speed nor scale that is required to tackle the economic, environmental and social challenges we face. More concerted and ambitious action on the part of governments is required to improve public policies, regulatory frameworks and market incentives. But business cannot afford to sit on the sidelines. Many more business leaders must get actively engaged in the sustainability agenda to ensure that private enterprise and capitalism are seen as part of the solution rather than being vilified as causing the problem. What can we learn from the pioneers about sustainability leadership? And how can we scale and replicate such leadership?

The leadership practices of corporate sustainability pioneers

Companies that have been pioneers in integrating sustainability into their core business activities come from a wide variety of industry sectors and countries. Despite their differences, many of them demonstrate a common and explicit commitment to leadership at each of the following three levels:

- First, they have created policies and programmes to develop and empower the **Individual Leadership Skills** of their employees so that they can drive the change towards more sustainable business models.
- Second, they have established **Institutional Leadership Structures** within the company to engage more systematically with key stakeholders and to ensure that sustainability policies, processes and incentives become embedded in core business models rather than remaining a ‘bolt-on’.
- Third, they are investing time and resources in the often difficult process of building **Interactive Leadership Platforms** beyond their own companies – either collective industry-wide initiatives or multi-stakeholder coalitions with their competitors, other companies, governments and non-governmental organizations aimed at tackling systemic obstacles to change and to achieving greater scale and impact.

These three levels of mutually reinforcing leadership offer great potential for driving, embedding and scaling more sustainable business practices.

1. Individual Leadership Skills to drive change

Almost every successful attempt to align sustainability goals with core business interests and activities relies on 'leadership from the top'; a committed chairman, chief executive officer and executive team. This is necessary, but not sufficient. To inspire and drive transformational change, individual leadership needs to go beyond the "C-Suite" to business unit directors, country managers and ideally all employees. Responsibility for sustainability leadership needs to become part of corporate culture, going beyond written values statements to the daily actions undertaken by individuals. In their 2010 [Best Companies for Leadership](#) study, HayGroup note, "*The Top 20 companies are looking everywhere for leadership, innovation and ideas – not just up the hierarchy*", and "*The Top 20 also show a greater interest in social and environmental responsibility than other companies.*"

There is growing recognition of the new types of business leadership skills and competencies that are required to align long-term competitiveness with broader sustainability risks and challenges. The Cambridge Programme for Sustainability Leadership's report on [The State of Sustainability Leadership 2011](#) identified the following seven characteristic traits and styles as being important:

- systemic, interdisciplinary understanding
- emotional intelligence and a caring attitude
- a values orientation that shapes culture
- a strong vision for making a difference
- an inclusive style that engenders trust
- a willingness to innovate and be radical
- a long term perspective on impacts.

These individual leadership traits have been highlighted by other recent studies such as [Business Skills for a Changing World](#), a joint project of the business-led World Environment Center and student-led Net Impact which interviewed sustainability officers in over 30 global corporations, and by the Leadership Agenda project being undertaken by the [International Business Leaders Forum](#) to promote smart, inclusive and responsible growth.

In 2010, General Electric completed a review of its highly regarded leadership development model. In his [2010 Letter to Shareowners](#), Chairman and CEO Jeffrey Immelt commented: "*There are certain fundamentals of leadership at GE that never change: a commitment to integrity, a commitment to performance and a commitment to innovation. Beyond this, as the world changes, leadership must evolve as well.*" The company has identified the following new leadership attributes as being essential for today's world: the ability to execute in the face of change; to be humble listeners; to be systems thinkers and "horizontal" innovators, able to connect technology, public policy, social trends and people across multiple businesses; and to be scale-based entrepreneurs capable of solving problems for customers and society at scale.

Companies are developing the sustainability skills of their current and future leaders through a combination of on-the-job training, in-house leadership development, social media networks, affinity groups, volunteering initiatives, award programmes, external executive education and experiential learning opportunities. The latter are often implemented in partnership with NGOs. A few innovative examples of experiential learning and leadership programs include [Business in the Community's Seeing is Believing](#) program, [IBM's Corporate Service Corps](#), and [Pfizer's Global Health Fellows](#). These initiatives expose business leaders or high-potential managers to non-traditional, field-based assignments focused on helping to address development and sustainability challenges. The Aspen Institute offers a [First Movers Fellowship Program](#) for young managers who have already demonstrated the ability to innovate at the interface of business and social entrepreneurship, and the World Business Council for Sustainable Development has established a [Future Leaders Program](#), which has mobilized over 500 young managers from around the globe.

The academic community, especially [business schools](#), has an essential role to play in developing sustainability leadership skills. Yet, despite some progress, business schools are lagging global business trends in this area. Companies can, and should influence greater action by these academic institutions in their capacity as major funders and recruiters.

2. Institutional Leadership Structures to embed change

Many of the leaders in corporate sustainability have created dedicated institutional leadership structures to enable them to learn more systematically from different stakeholders and to embed change more firmly into their corporate governance and core business operations. Four institutional leadership structures that offer great potential are:

- **Sustainability or corporate responsibility board committees** to embed social, environmental and public policy issues into corporate governance.

The business risks and opportunities associated with sustainability issues are now sufficiently material for most large companies that they warrant explicit, regular and dedicated attention at the level of Boards of Directors. One of the first major studies of [board oversight of environmental and social issues](#) in North America estimates that in 2010, 65 percent of S&P100 firms in the United States provided for such oversight through one of their committee charters, with about half of these having a dedicated committee to address sustainability-related issues. Almost no analysis has been undertaken on the characteristics and composition of such board-level committees or on other mechanisms to embed sustainability issues more firmly into corporate governance. This is an area that warrants further work, along with increased director training and investor engagement on sustainability issues.

- **Sustainability leadership teams and networks** to encourage company-wide collaboration across different business units, functions and countries or around specific sustainability issues.

A number of leading companies have created cross-functional leadership teams and networks to drive sustainability issues through their core business operations. These vary from senior-level executive groups, often chaired by the CEO and aimed at integrating sustainability issues into corporate strategy to 'bottom-up' employee-led networks such as [green teams](#), social media platforms, and volunteer networks. Both levels can play a vital leadership role in directing and energizing sustainability performance. A few companies have created sustainability award programmes to recognize employee teams and networks rather than individuals, which can also help to drive cross-functional leadership.

- **Sustainability or stakeholder advisory councils** to provide independent and challenging input to senior managers on sustainability issues.

A growing number of companies are also establishing 'outside-in' leadership structures to help drive excellence in sustainability performance. A variety of models are emerging. At one level there are expert-led external advisory groups who meet with senior management on a regular basis and have a mandate to provide challenging advice on some combination of specific sustainability issues, risks or opportunities, on sustainability reporting and disclosure or on sustainability strategy more broadly. There are also some innovative examples emerging of employee-led, but externally advised networks, most notable of which are [Walmart's Sustainable Value Networks](#). Although a few companies have had these 'outside-in' leadership structures for many years, in most cases they are just starting to evolve.

- **Sustainability Business Units and Ventures** to incubate or scale innovative new products, services, technologies or business models.

Developing and commercializing new environmental technologies and new products, services and business models aimed at serving low-income communities can be challenging at the outset in terms of meeting a company's business development hurdle rates and profit targets. To address this challenge some companies are setting up dedicated structures to facilitate such innovation and commercialization. Models range from specialized or dedicated business units, with examples including [ReutersMarket Light](#); [Accenture Development Partnerships](#) and [GSK's Developing Countries and Market Access](#) unit; to sustainability venture funds, such as [Danone's Communities Fund](#) and [Dow's Global Challenges ventures](#); to open innovation platforms, such as [GE's Ecomagination Challenge](#).

In most cases these four different models for institutional leadership are still at an early stage of development and there is much to learn about what works and why. Yet early successes suggest their potential to help companies identify the material sustainability risks and opportunities that they face, set ambitious goals and targets for addressing them, embed them in corporate strategy and management systems, align business and sustainability incentives, and drive innovation.

3. Interactive Leadership Platforms to scale change

Even the world's largest global corporations have recognized that their ability to influence the sustainability agenda is often limited, especially in the absence of enabling regulatory policies, pricing signals and other market incentives. This awareness has led to the emergence of another important level of corporate sustainability leadership over the past two decades: voluntary, business-led or multi-stakeholder platforms. These are coalitions that bring together large numbers of companies, often competitors, and sometimes other actors from government and civil society with the aim of either scaling up a particular sustainability solution, tackling systemic obstacles that no one company can address on its own or advocating for more progressive public policies.

Most of these large-scale leadership platforms are less than a decade old and their impact is still evolving. A few business-led examples that have already had an impact on scaling corporate sustainability policies at an industry-wide level include the [Corporate Leaders Network for Climate Action](#), the [International Council on Mining and Metals](#), the [Equator Principles](#) in the banking sector, and the [Consumer Goods Forum](#). In the lead up to Rio Plus 20, [Business Action for Sustainable Development](#) and the [Corporate Sustainability Reporting Coalition](#) are two other business-led platforms that will have a crucial role to play. Large-scale multi-stakeholder leadership platforms established over the past decade include the [Global Green Growth Institute](#), the [UN Global Compact](#), the [Global Reporting Initiative](#), the [New Vision for Agriculture](#), the [Marine Stewardship Council](#), the [Sustainability Consortium](#), and the [Roundtable on Sustainable Palm Oil](#), to name a few.

The Way Forward

Sustainability leadership by the private sector offers one of our great hopes to restore growth and sustain prosperity both today and in the future. While capitalism remains one of the best systems humankind has developed to create wealth and to expand access to opportunity, recent years have exposed its flaws. Three in particular call for reform – short-termism and the need to meet quarterly earnings guidance at the expense of the long-term; excessive focus on shareholder value maximization rather than a more balanced and explicit commitment to serve both shareholders and other stakeholders; and failure to implement full cost accounting that explicitly values and accounts for human, natural and social capital as well as financial and physical capital. These flaws are not 'cast in stone'. They can all be addressed with

the right public policies and private leadership. We need to refine capitalism not reject it. Bill Gates has described the new approach as [‘Creative Capitalism’](#), former Coca-Cola Chairman and CEO Neville Isdell as [‘Connected Capitalism’](#), Dominic Barton of McKinsey as [Capitalism for the Long Term](#), and Professor Michael Porter and Mark Kramer as [‘Shared Value’](#).

In all cases, the focus is on finding new ways to harness the core competencies and capabilities of private enterprise in a manner that enables companies to protect and create business value while also protecting and creating broader economic, social and environmental value. The world’s major corporations with their global reach, large footprint, ability to influence public policy, and connections with millions of consumers, producers, investors and employees have an especially important leadership role to play. Different business leaders and companies will get there in their own way based on the key sustainability risks and opportunities faced by their own company, industry sector and countries of operation. Regardless of these differences, all business leaders should ask the following three questions:

- 1) Are we developing the necessary **Individual Leadership Skills** to drive change towards sustainability?
- 2) Have we established adequate **Institutional Leadership Structures** within our company to learn from stakeholders and embed change?
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