



**UNIVERSITY OF
CAMBRIDGE**

INSTITUTE FOR
SUSTAINABILITY LEADERSHIP



The future of sustainable business

Reflections from 30 sustainability leaders

The University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership (CISL) is a globally influential Institute developing leadership and solutions for a sustainable economy. We believe the economy can be ‘rewired’, through focused collaboration between business, government and finance institutions, to deliver positive outcomes for people and environment. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our interdisciplinary research engagement builds the evidence base for practical action.

Rewiring the Economy

Rewiring the Economy is our ten-year plan to lay the foundations for a sustainable economy. The plan is built on ten interdependent tasks, delivered by business, government, and finance leaders co-operatively over the next decade to create an economy that encourages sustainable business practices and delivers positive outcomes for people and societies.

Rewiring Leadership

Rewiring Leadership outlines the kind of leadership which will be required to achieve these goals. It highlights the need for leadership which is guided by a purpose to rewire the economy, which fosters the necessary capabilities, and which holds itself accountable for delivering change at the pace and scale required.



Participants

The round table was attended by 30 senior representatives of multinational companies from the following sectors: apparel, aviation, banking, chemicals, extractives, FMCG, ICT, luxury (fashion), manufacturing, pharmaceuticals, property, retail and utilities.

Disclaimer

The views and perspectives shared in this report are those of individual attendees at the round table meeting and do not represent the official position of CISL or the wider University of Cambridge.

Contact

For more information on this report or on CISL’s work to support business leadership, please contact: info@cisl.cam.ac.uk

Executive summary

As we look around the current business landscape, we are seeing clear signs of new approaches to new challenges.

In recent years, businesses have faced significant changes driven by new technologies as well as innovations in business models, products and processes¹. At the same time, there are pressing social and environmental challenges affecting both the stability and the wellbeing of entire regions, sectors and communities; this, in turn, is reshaping the expectations of consumers, investors and governments.² There is a growing public expectation that business will take a lead and deliver a response to many of these challenges.

It is clear, however, that business as usual and leadership as usual will not achieve change at the pace and scale required for these new challenges and expectations, nor will they achieve the outcomes of the UN Sustainable Development Goals (SDGs) or the Paris Climate Agreement.

The leadership required from business must go beyond bolt-on approaches to sustainability. Instead, business should:

- Align organisational purpose, strategy and business models with system-level change
- Set evidence-based targets, measure outcomes and be transparent
- Embed sustainability into organisational practices and decisions
- Engage, collaborate and advocate for transformational change

These four critical tasks for business are among the ten set out in *Rewiring the Economy*³, the CISL report which lays out our ten-year plan for a sustainable economy and proposes the changes required of business leadership, policy makers, and finance leaders. Following a survey of sustainability leaders in our network, three of these tasks were identified as ones which would benefit from further exploration in peer-group discussions. CISL organised a round table event to which 30 sustainability leaders from our network attended to discuss the future of sustainable business.

This paper offers insights into the new models of thinking that arose from those discussions, as well as the challenges and opportunities identified by the range of companies involved. In all participants, there was a common desire to set a positive course for the future of sustainable business.

“The roundtable discussion and resulting report clearly shows that society’s expectation is rapidly increasing for all businesses to step forward and do their bit for a sustainable future, no matter what the size of the business is or indeed the sector it is in. Those businesses that take their responsibility seriously and see the opportunities that the challenges bring will be the winners. Without doubt this requires visionary leadership.”

Stuart Arnott, President Global Ops, Croda

Contents

Executive Summary	3
External trends shaping the operating context for business	5
Examples of progress and challenges for sustainable business in 2018	6
a. The most significant signs of progress	6
b. The biggest challenges for sustainable business	7
Discussions aligned to the Rewiring the Economy business tasks for sustainable business	8
a. Aligning organisational purpose, strategy and business models with system-level change	8
b. Embedding sustainability into organisational practices and decisions	10
c. Engaging, collaborating and advocating for transformational change	11
References	13

External trends shaping the operating context for business

Participants highlighted which of six key trends are affecting the operating context for their sectors. Almost all participants noted that they are subject to increasing levels of scrutiny, and every trend on the chart affects at least half of sectors which were represented in the room. These included apparel, aviation, banking, chemicals, extractives, FMCG, ICT, luxury (fashion), manufacturing, pharmaceuticals, property, retail and utilities.



“It was notable that all sectors are seeing consistently higher levels of stakeholder expectations and scrutiny. But, despite lots of companies now publishing social progress targets, there are mixed levels of engagement and deep collaboration happening between institutions. In addition, despite the SDG framework becoming a public emblem for companies, proper integration of sustainability into strategic planning is still not universal – and all agreed that the tension of reconciling short term results with long term sustainability remains a challenge.”

Kirsty Britz, Director, Sustainable Banking, RBS

The most significant signs of progress seen in 2018

Participants were positive about current responses, from business and government, to the challenges that we are facing. They highlighted a number of specific, positive signs of progress during 2018 which can be grouped into the following key themes.

Progress towards the Sustainable Development Goals (SDGs)

Good progress in the UK in meeting its carbon reduction targets and the frequency of days where renewable energy overtook fossil fuels

Expansion in access to healthcare, education, housing and jobs for otherwise marginalised people

Cape Town municipality reducing water consumption from 1.6 billion litres per day to less than 500m litres per day without social unrest

Financial institutions integrating sustainability into their investment and lending decisions

Major asset owners and investors integrating sustainability into their stewardship policies

Leading investors divesting from companies on the basis of poor sustainability performance

Increased scrutiny and engagement by lenders leading to improved sustainability performance in major infrastructure projects

Disclosure requirements driving board and executive engagement and greater transparency

The recommendations of Task Force on Climate-related Financial Disclosures being implemented, leading to greater integration of climate-related financial risks into business strategy and corporate governance

Increased stakeholder pressure driving pension funds and trustees to manage and disclose sustainability risks and impacts

Government action through regulation and procurement

Switzerland adopting legislation on a duty of vigilance for companies in relation to human rights

EU commission developing a guide for social/supply chain responsibility in public procurement

UK government announcing nationwide deposit return scheme for plastic bottles

Greater interest from government over environmental impact of fashion industry

Business action to align strategy with SDGs and to harness technology to address sustainability challenges

Tech developments enabling step-change progress in business management of resources and supply chains, e.g. battery storage in South Australia, use of blockchain in supply chain transparency

More companies in different sectors adopting UN SDGs as a strategic framework and making pledges about their contribution to SDGs

Consumer and citizen action on sustainability

Strong consumer pressure and business response to the plastics issue

Millennials seeing climate change as top priority and factoring this into their employment and purchasing decisions

Increase in vegan/vegetarian diets, e.g. fastest growing food range at M&S is their vegan line

“The many challenges and changes affecting societies today have led to a very dynamic environment for business and have long signaled the end of business as usual. The good news today is that we have the science needed to begin addressing these challenges. We need the determination to drive progress, and stimulating approaches to collaborate and facilitate the adoption of best in class solutions.”

Nicoletta Piccolrovazzi, Global Technology & Sustainability Director, Dow

The most significant challenges to sustainable business

Despite the positive trends, however, participants recognize that there are significant challenges associated with enabling the response required. Participants highlighted six areas that provide the most significant challenges to enabling sustainable business, as outlined below, with relevant examples.

Making progress in challenging operating contexts

Working in parts of the world where there is growing harm to human rights defenders and the closing of civil society spaces

A lack of political leadership or accountability for the SDGs; political, regulatory and economic uncertainty; a near-term focus on delivering Brexit

Trying to transition to a low carbon economy in the absence of financial incentives to support decarbonisation

Preparing for the loss of a significant number of manual jobs; harnessing technology across society without increasing social inequality or economic exclusion

Aligning purpose and strategy with a sustainable future

Building organisational purpose and business models that creates sustainable value for society

Convincing the leadership team that social agenda items really matter to business – as opposed to paying lip service to perceived trends

Engaging customers and consumers

Effectively engaging consumers on sustainability in a way that really resonates with them and changes behaviours, leading them to aspire to more sustainable lifestyles

Building customer support for long-term investments in sustainability projects when the regulatory cycle drives a shorter term view

Achieving long-term transition while delivering short-term results – reconciling profitability and sustainability

Reconciling ‘doing the right thing’ for the long term with the inevitable short-term expectations investors and shareholders

Embedding sustainability into every business decision when it will have a negative financial impact in the short term

Selling a sustainable business case to all parts of the business when market forces go against sustainability

Reconciling business growth with increased (positive) sustainability impact

Aligning culture and fostering the necessary leadership and skills

Changing the culture of the organisation to be one capable of supporting ‘rewiring the economy’

Cost-effectively and efficiently up-skilling the entire workforce on areas of sustainability which relate directly to their roles

Integrating sustainability capabilities (e.g. systems thinking) into the organisation’s leadership programmes

Embedding sustainability across the business

Creating business integration on sustainability from global corporate level to regional and divisional level

Setting meaningful science-based targets, and targets aligned to SDGs

Aligning organisational purpose, strategy and business models with system-level change

We know that for many businesses the current operating model isn't going to be sustainable in the long term, and companies will have to transform their value-creation system to generate a fair social contribution within the natural boundaries set by the planet.

The shift business needs to make is dramatic and multi-year. It will be a significant challenge for many companies, and requires clarity of purpose, a strongly articulated imperative for change, and an alignment of strategy and culture to deliver the pace and scale of change required.

Greatest challenges

- **Disconnect between shareholder value and sustainable business:** Top level commitments on sustainability from institutional investors are not trickling down into practice quickly enough. The majority of investors and shareholders are still focused on short-term financial results rather than long-term sustainable value creation, and the majority of listed businesses are still oriented towards delivering against these shareholder expectations rather than focusing on transitioning to sustainable models.
- **Reconciling growth and sustainability:** Virtually all businesses seek growth and – for most – this growth will increase their use of resources and production of waste. Until we decouple business activity from negative impact and achieve circular approaches to resources, the drive for growth will undermine progress towards sustainability.
- **Inherently unsustainable business models:** It isn't possible to superimpose a sustainable purpose over a business model that wasn't developed with this purpose in mind. Some sectors (e.g. fashion) face fundamental challenges and will need radical transformation to align with a sustainable economy.
- **Action and impact vs optics:** Much corporate focus on 'purpose' has been about marketing, reputation, and virtue-signalling rather than meaningful change. This has resulted in purpose fatigue, calls of 'peak purpose', the risk of increased cynicism, and lack of trust in business.
- **Gap between aspiration and action:** It can be hard to translate the high-level ambitions of the Board into practical action within the business – there is a need for a systematic focus on embedding.
- **Translating group-level purpose to regions and divisions:** How can a group-level purpose be developed that will encompass all divisions and all regions, without it becoming bland and meaningless? And how can a group-level purpose be translated into authentic and useful action at divisional level?
- **Sustaining momentum through changes of CEO:** How does a business ensure that sustainability is so deeply embedded that a new CEO can't row back on progress?

Most promising solutions

- **Address false dichotomy between profit and purpose:** Challenge perceptions that a purpose aligned to sustainability will damage commerciality. Businesses that are successful in the long term are clear about their contribution to society and are profitable because they are valued by society and stakeholders.
- **Be honest and authentic:** Get back to basics and really understand the core purpose and values of the business; be frank and honest about the sustainability challenges it faces. This is likely to serve a business better than a focus on reputation management and PR.
- **Create space for meaningful discussions at board and exec levels:** Fundamental changes of purpose and strategy require proper time and space for leaders to reflect, and to build alignment between hearts and minds. This can require education to raise awareness of drivers and solutions. Create this space.
- **Innovate, and identify new forms of value creation:** Foster innovation across the business to create new business models, products and processes that align sustainability and commercial performance.
- **Communicate impact, not just financial performance:** Develop meaningful impact metrics, collaborate with others to develop common standards, and report against these.

“It is important to help people in the business, particularly people at senior levels, connect what the company’s purpose is with the business plan: what does it say the company’s actually trying to do, and how will sustainability support that. Purpose tends to sit on its own; it tends to be kind of a strap line. Instead it needs to be a concrete driver of decisions and choices, and almost always that’s about how you merge sustainability with the business case. So education about how those three actually fit together [is crucial].”

Sue Garrard, Unilever’s former EVP of Sustainable Business.

Embedding sustainability in practices and decisions

Companies can align their capital, talent and senior attention with a sustainable business vision: this will ensure that people are empowered to deliver. In any fast-moving transition, the ability to learn and adapt is critical. In this situation, companies can build their capability by educating and empowering individual leaders, organisations and wider industries to take a longer, broader view of value creation which is consistent with sustainable business success. This will involve purposefully reallocating capital, talent and senior attention from current models towards the allocation required to deliver on sustainable business ambitions. Incentives also matter, and companies of all kinds – including in the financial sector – can review their reward and recognition schemes to ensure that managers are not given perverse incentives to preserve the status quo. Instead, they should be rewarded for long-term, sustainable performance.

Greatest challenges

- **The size of the change required is significant:** People are comfortable with gradual change but transformational change can be difficult.
- **In many cases, there are not strong drivers for change:** Stakeholders – especially customers and shareholders – often do not require good performance on sustainability. This is particularly pronounced in some sectors and some regions, but individual organisations recognise that they can do more without external influence.
- **It is unclear what to do:** In many instances, responding to sustainability challenges is hard and involves uncertainty, but teams and businesses need to experiment and find their own solutions through trial and error.

Most promising solutions

- **Do and then commit:** Some individuals indicated that it was easier to build momentum on sustainability where there was a previous track-record, indicating that there may be a need for organisations to covertly experiment before showcasing their findings.
- **Make a strong business case and ‘hard-wire’ good practices:** There is still a need to articulate sustainability in the language of business, understand the nuance of the business case, and ‘hard-wire’ sustainability into processes such as procurement and property management.
- **Find willing partners:** Building customer demand can increase social capital and enable an organisation to accelerate more quickly.
- **Map skills and needs:** By giving permission and offering clarity to employees at all levels, there is considerable scope to embed sustainability into business.

“A key challenge for leaders is tackling the short termism of the market vs the long term focus needed for a sustainable future. We need to offer models/frameworks to support existing leaders to build their confidence in this area so they feel less intimidated by the breadth of the challenge.”

Sue Garrard, Unilever’s former EVP of Sustainable Business.

Engaging, collaborating and advocating for transformational change

Given what is at stake for business in the transition to a sustainable economy, this is no time for greenwash. Not all stakeholders – including governments – are currently on board with the challenges, or working hard to find solutions. Deploying corporate influence for positive changes in the value chain, the market, policies and culture is an essential characteristic of a sustainable business.

Greatest challenges

- Lack of common goals and incentives: Identifying goals that are relevant to all stakeholders, and sharing risk and costs fairly across diverse stakeholders, is challenging and time-consuming.
- Lack of government action and frameworks: Government responses are often siloed, piecemeal, reactive, lacking vision and imagination. Many countries lack a proactive, integrated, systematic response from government to deliver the SDGs and a framework to enable business engagement.
- Regulatory barriers: Competition Commission rules often prevent collaborations or dilute their impact.
- Culture and mindsets: Corporate focus on competitive edge, an orientation towards transactional rather than collaborative relationships and development of technical rather than social skills often stymy collaboration. Leaders have often made it to the top in a paradigm which valued winning relative to peers rather than building effective collaborations – it is hard to pivot.
- Lack of systemic insight: Businesses often don't know who else shares their goals, which partners they need, and the value that other stakeholders could contribute.
- Under-leveraging the value of NGOs: NGOs have an important role to play as a 'critical enemy' to business; however, businesses tend to have a binary response rather than an open, collaborative response, and therefore miss some of the potential value of collaboration.
- Lack of inspiring narrative: Although there are huge issues to address, the focus on reducing risks and impact isn't motivating or engaging, nor is the focus on targets and accounting. These won't address the fundamental consumer/consumption challenge. Do we need to change the conversation?

Most promising solutions

- Identify opportunities for collective gains: The onus is on business to create common domains and congruent goals, and to find opportunities for win-wins with stakeholders.
- Enable consumers to drive change: Consumer interest in sustainability is growing rapidly and we have seen evidence of mass behavioural change. Can we further stimulate and harness this trend?
- Experiment and communicate: We need to be able to see what collaborations look like, and identify how to achieve them. It is up to business to create and share case studies.
- Encourage government to remove barriers and create frameworks for business action: Lobby government to provide a framework enabling collaboration in the pre-competitive phase.
- Build government insight: Help government to develop a deeper and richer understanding of sustainability, and the benefits to society and the economy of a proactive government strategy.
- Learn from examples of change: Reflect on the story of change behind examples of progress, e.g. the response to the plastics issue and the achievement of the Paris Climate Agreement. What can we learn from these to apply to other situations where collaboration is required?
- Educate and inspire others: Thought leaders such as CISL can create dynamic conversations and develop new leadership capabilities to enable current and future leaders to engage and take action.

“A key challenge for many sustainability leaders has been to show that the investments made can create a return on investment. We also recognize this in Dell. One of the solutions is to connect the missing link between the corporate sustainability programs and customer relations – integrating the sustainability message as a differentiator and value proposition in customer relations and sales. You can have the strongest program or product in the world, but if you keep it a secret it’s not going to create much value for the business or your customers. So we are now working systematically to engage in sustainability conversations with our customers, sharing our work and encouraging both corporate and public sector customers to consider and prioritize social and environmental sustainability when they buy IT solutions. These conversations are strengthening our relations with customers and even contributing to win business.”

Louise Koch, Corporate Sustainability Director, Dell

References

- ¹ University of Cambridge Institute for Sustainability Leadership (CISL). (2018). *Rewiring leadership: The future we want, the leadership we need*. Cambridge, UK: the Cambridge Institute for Sustainability Leadership.
- ² University of Cambridge Institute for Sustainability Leadership (CISL). (2018, January). *Eight sustainability trends that will define 2018*. Cambridge, UK: Cambridge Institute for Sustainability Leadership.
- ³ University of Cambridge Institute for Sustainability Leadership (CISL). (2015, July; updated 2017, November). *Rewiring the Economy: Ten tasks, ten years*. Cambridge, UK: Cambridge Institute for Sustainability Leadership.



UNIVERSITY OF
CAMBRIDGE

INSTITUTE FOR
SUSTAINABILITY LEADERSHIP

Cambridge insight, policy influence, business impact

The University of Cambridge Institute for Sustainability Leadership (CISL) brings together business, government and academia to find solutions to critical sustainability challenges.

Capitalising on the world-class, multidisciplinary strengths of the University of Cambridge, CISL deepens leaders' insight and understanding through its executive programmes; builds deep, strategic engagement with leadership companies; and creates opportunities for collaborative enquiry and action through its leadership groups.

Over the past 30 years we have built up a leadership network of over 8,000 senior leaders and practitioners from business, government and civil society, who have an impact in every sector and on every continent. Their experience and insights shape our work, which is further underpinned by multidisciplinary academic research.

HRH The Prince of Wales is the Royal Founding Patron of CISL and has inspired and supported many of our initiatives.

In the UK

1 Trumpington Street
Cambridge, CB2 1QA, UK
T: +44 (0)1223 768850
F: +44 (0)1223 768831
E: info@cisl.cam.ac.uk

In Brussels

The Periclès Building
Rue de la Science 23
B-1040 Brussels, Belgium
T: +32 (0)2 894 93 19
E: info.eu@cisl.cam.ac.uk

In South Africa

PO Box 313
Cape Town 8000, South Africa
T: +27 83 491 8369
E: info.sa@cisl.cam.ac.uk