



WHY ALL BUSINESSES SHOULD EMBRACE SUSTAINABILITY

SOME TOP COMPANIES ARE LEADING THE WAY

By IMD Professor Knut Haanaes

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Sustainability is becoming more important for all companies, across all industries. 62% of executives consider a sustainability strategy necessary to be competitive today, and another 22% think it will be in the future.

Simply put, sustainability is a business approach to creating long-term value by taking into consideration how a given organization operates in the ecological, social and economic environment. Sustainability is built on the assumption that developing such strategies foster company longevity.

As the expectations on corporate responsibility increase, and as transparency becomes more prevalent, companies are recognizing the need to act on sustainability. Professional communications and good intentions are no longer enough.

The following industry leaders illustrate what sustainability initiatives look like:

- Nike and Adidas have both stepped up seriously. Nike has focused on reducing waste and minimizing its footprint, whereas Adidas has created a greener supply chain and targeted specific issues like dyeing and eliminating plastic bags.
- Unilever and Nestlé have both taken on major commitments; Unilever notably on organic palm oil and its overall waste and resource footprint, and Nestlé in areas such as product life cycle, climate, water efficiency and waste.
- Walmart, IKEA and H&M have moved toward more sustainable retailing, largely by leading collaboration across their supply chains to reduce waste, increase resource productivity and optimize material usage. It also has taken steps to address local labour conditions with suppliers from emerging markets.
- Pepsi and Coca-Cola have both developed ambitious agendas, such as increasing focus on water stewardship and setting targets on water replenishment.
- In biopharma, Biogen and Novo Nordisk have both worked toward energy efficiency, waste reduction, and other ecological measures. They have also focused on social impact via partner initiatives in the areas of health and safety.
- In financial services we see how banks like ANZ and Westpac in Australia both advance local communities with good sustainability practices and by embedding sustainability in their business processes and culture.
- Car manufacturers like BMW and Toyota have made strides on energy efficiency and pollution reduction, not to mention Tesla as an outsider really challenging the industry's overall footprint.

These firms have all made strong commitments to sustainability, in large part through transparency and addressing material issues. They are embarking on a more sustainable journey, and all firms should follow suit over the next decade.

Two gaps to beware of

In order to address sustainability appropriately companies need to bridge two critical gaps:

- **“The knowing – doing gap”**: A study that I participated in by BCG/MIT finds that whereas 90% of executives find sustainability to be important, only 60% of companies incorporate sustainability in their strategy, and merely 25% have sustainability incorporated in their business model.
- **“The compliance – competitive advantage gap”**: More companies are seeing sustainability as an area of competitive advantage, but it is still a minority – only 24%. However, all companies need to be compliant. Management should address these topics separately – not mesh them together. Compliance is holistic, a “must do”. For competitive advantage, only a few material issues count.

Companies that stand out in the area of sustainability address both gaps. They have evolved from knowing to doing and from compliance to competitive advantage. They also know the risk of getting this wrong. For instance promising and not delivering, or addressing material issues without being solid on compliance.

Some practical recommendations

Just like with overall strategy there is no “one right solution” on sustainability. The best solution depends on the ambitions and stakes at each company. Here are a few useful actions for all management teams to improve sustainability practices.

- 1] **Align strategy and sustainability**: Management needs to make sure that the strategy of the company and the sustainability efforts are aligned. Often we see divergence, which of course makes the sustainability efforts fragile, lacking real commitment and prioritization. There are many good examples. Take Unilever’s “Sustainable Living” which has the ambition to decouple growth and output as well as reduce its resource footprint by focusing on waste reduction, resource efficiency, sustainability innovation and ecological sourcing (like in organic palm oil). Similarly, Toyota is well known for innovation in hybrid engines, but less so for reducing their dependence of rare earth minerals. These minerals were required for hybrid and electric engines. But by developing alternative motor technologies Toyota reduced its import dependence and operational risk, and in doing so reduced its financial risks in case of price increases.
- 2] **Compliance first, then competitive advantage**: First and foremost companies need to address compliance, which often relates to regulations in waste management, pollution and energy efficiency as well as human rights and labour responsibility. Compliance is also an issue that concerns investors. Recent BCG/MIT data shows that investors increasingly shy away from compliance risks. A full 44% of investors say that they divest from companies with poor sustainability performance.
- 3] **Reactive to proactive**: Many of today’s leading companies in sustainability, like Nike, Coca-Cola, Telenor, IKEA, Siemens and Nestlé have stepped up largely as a consequence of a crisis. For example, Nike faced boycotts and public anger for abusive labor practices in places like Indonesia throughout the 90s, but turned the tide around. In 2005, it became a pioneer in establishing transparency by publishing a complete list of the factories it contracts with and a detailed 108-page report revealing conditions and pay in its factories. It also acknowledged widespread issues, particularly in its south Asian factories. By recognizing the impact of sustainability in a crisis these companies have all developed more proactive sustainability strategies.
- 4] **Quantify, including the business case**: All companies struggle with quantifying the return on their sustainability investments. With regards to compliance this is a straight forward issue. With regards to areas of competitive advantage, however, companies need to link sustainability to a business case. But the ones that actually do form a relatively small group.

- 5] **Transparency** is a pre-condition for assessing and improving sustainability practices. You cannot judge without transparency, simple as that. Transparency builds on the idea that an open environment in the company as well as with the community will improve performance. The only way for companies to accomplish transparency is through open communications with all key stakeholders built on high levels of information disclosure, clarity, and accuracy – as well as an openness to recognizing faults and improving practices.
- 6] **Engage the Board:** A full 86% of respondents in a recent survey by MIT/BCG agree that boards should play an active and strong role in sustainability. But, only 42% report that their boards are substantially engaged. Boards are often critical in collaborations with key stakeholders such as NGOs, governments and international Organizations.
- 7] **Engage your ecosystem:** We see that collaboration is critical for efficient sustainability practices, in particular in solving crises and in shaping broader solutions. The MIT/BCG data shows that 67% of executives see sustainability as an area where collaboration is necessary to succeed.
- 8] **Finally – and most importantly – engage the organization broadly:** One example of engagement is Salesforce.com which through their “1/1/1” philanthropy program contributes to each employees’ personal ability to engage with environmental organizations and initiatives that support local communities. Another good example is Nespresso, responding to the debate over the sustainability of its capsules, the company has embedded sustainability into the DNA of every part of its business. Nespresso’s very purpose is linked to [the so called “Positive Cup” campaign](#). Sustainability is considered during every decision made at Nespresso. The company seems sincere about reducing its impact and is even looking at its aluminum sourcing.

In sum, sustainability is a major challenge, one that matters beyond individual companies. But reassuringly a number of large companies are developing forward-thinking sustainability policies. It is really becoming clear that sustainability is a megatrend that simply isn’t going away!

[Knut Haanaes](#) is Professor at IMD.

Research sources

[Sustainability Nears a Tipping Point](#)

[Sustainability: Collaboration and Leadership for Sustainability](#)

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