

McKinsey Global Survey results

## The business of sustainability

*More executives say companies are managing sustainability to improve processes and pursue growth instead of focusing on reputation alone; those that prioritize the issue and have formal structures are capturing the most value.*

**Many companies are actively integrating sustainability principles** into their businesses, according to the latest McKinsey survey,<sup>1</sup> and they are doing so by pursuing goals that go far beyond earlier concern for reputation management—for example, saving energy, developing green products, and retaining and motivating employees, all of which help companies capture value through growth and return on capital. In our sixth survey of executives on how their companies understand and manage issues related to sustainability,<sup>2</sup> this year's results show that, since last year, larger shares of executives say sustainability programs make a positive contribution to their companies' short- and long-term value.

This survey explored why and how companies are addressing sustainability and to what extent executives believe it affects their companies' bottom line, now and over the next five years.

On the whole, respondents report a more well-rounded understanding of sustainability and its expected benefits than in prior surveys. As in the past, they see the potential for supporting

<sup>1</sup> The online survey was in the field from July 12 to July 22, 2011, and received responses from 3,203 executives representing the full range of regions, industries, tenures, company sizes, and functional specialties.

<sup>2</sup> Defined as a combination of environmental, social, and governance issues also known as corporate social responsibility (CSR) or corporate responsibility.



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corporate reputation. But they also expect operational and growth-oriented benefits in the areas of cutting costs and pursuing opportunities in new markets and products. Furthermore, respondents in certain industries—energy, the extractive industries,<sup>3</sup> and transportation—report that their companies are taking a more active approach than those in other sectors, probably as a result of those industries’ potential regulatory and natural-resource constraints.

**A more active agenda**

There are some noteworthy changes since our 2010 survey<sup>4</sup> in the actions executives report their companies are taking on sustainability, their reasons for doing so, and the extent to which they have integrated sustainability into their business. For instance, the share of respondents saying their companies’ top reasons for addressing sustainability include improving operational efficiency and lowering costs jumped 14 percentage points since last year, to 33 percent. This concern for costs replaces corporate reputation as the most frequently chosen reason; at 32 percent, reputation<sup>5</sup> is the second most cited reason, followed by alignment with the company’s business goals, mission, or values<sup>6</sup> (31 percent) and new growth opportunities (27 percent), which climbed 10 percentage points since last year.

Therefore, it’s not surprising that the areas where most executives say their companies are taking action are reducing energy usage and reducing waste in operations, ahead of

<sup>3</sup>In these survey results, this group includes respondents from the coal, metal, oil and gas extraction, petroleum and natural gas distribution, petroleum refining, and other mining subindustries.

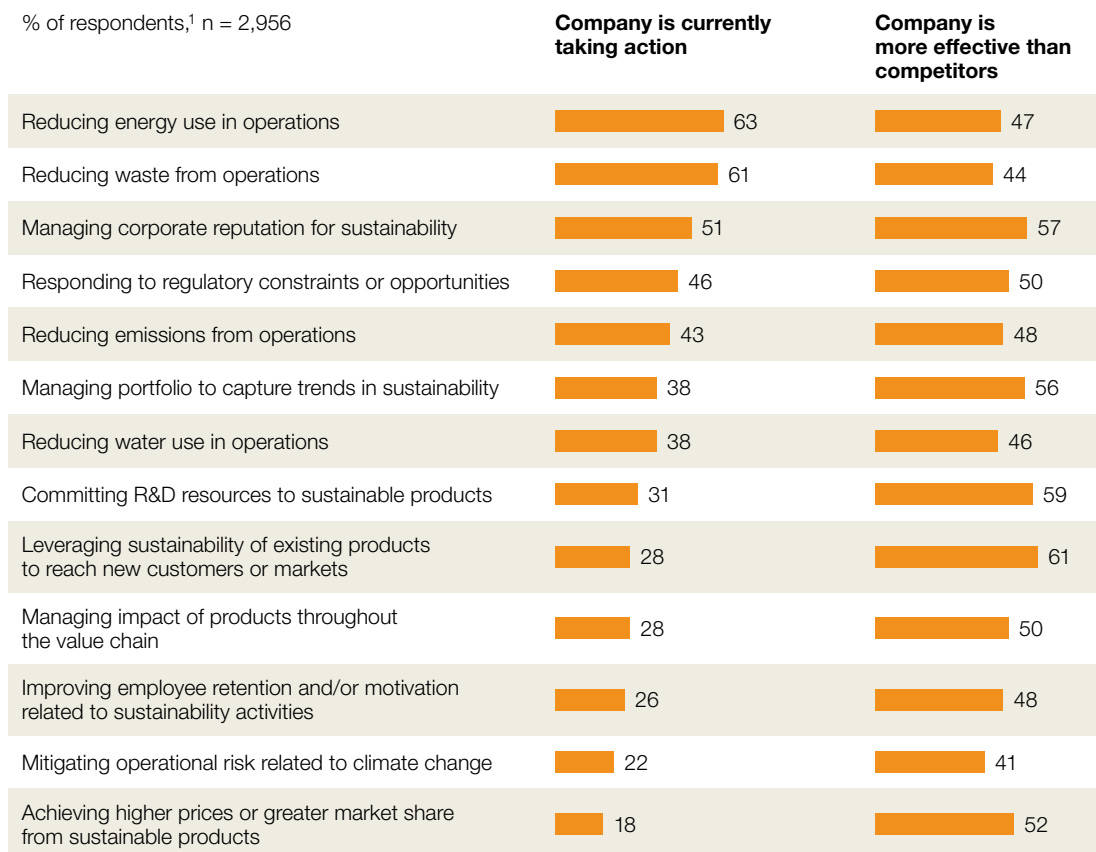
<sup>4</sup>The online survey was in the field in February 2010 and received responses from 1,946 executives representing a wide range of industries and regions.

<sup>5</sup>In 2011, the answer choice was, “building, maintaining, or improving our corporate reputation”; in 2010, the answer choice was, “maintaining or improving corporate reputation.”

<sup>6</sup>In 2010, the answer choice was, “alignment with company’s business goals.”



## Exhibit 1

**Moving beyond reputation**% of respondents,<sup>1</sup> n = 2,956<sup>1</sup> Respondents who answered “don’t know” or “none of the above” are not shown.

reputation management (Exhibit 1). Fewer respondents report that their companies are leveraging the sustainability of existing products to find new growth or committing R&D resources to bring sustainable products to market. Yet both of these are important ways sustainability can drive growth: organizations that act in these areas are the likeliest to say they’re more effective than their competitors at managing any other sustainability initiatives. These results suggest that companies may be better able to find a competitive advantage when pursuing growth activities than operational activities.



Companies are also integrating sustainability across many processes, according to respondents: 57 percent say their companies have integrated sustainability into strategic planning (Exhibit 2). The most integrated area is mission and values, followed by external communications, while the least integrated areas are supply chain management and budgeting. That said, sustainability has stayed at about the same place on CEOs'

Exhibit 2

### Widespread integration

% of respondents, n = 2,956

#### Business processes into which sustainability has been completely or mostly integrated

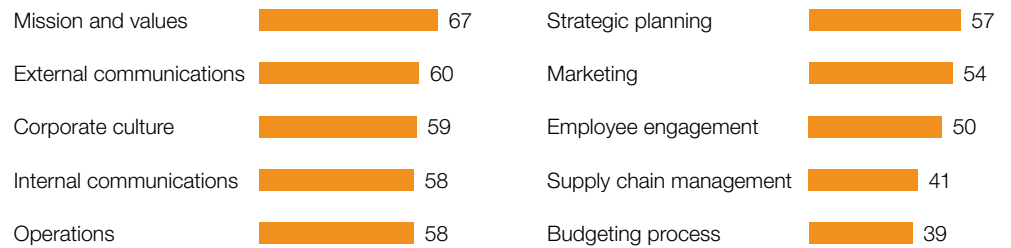
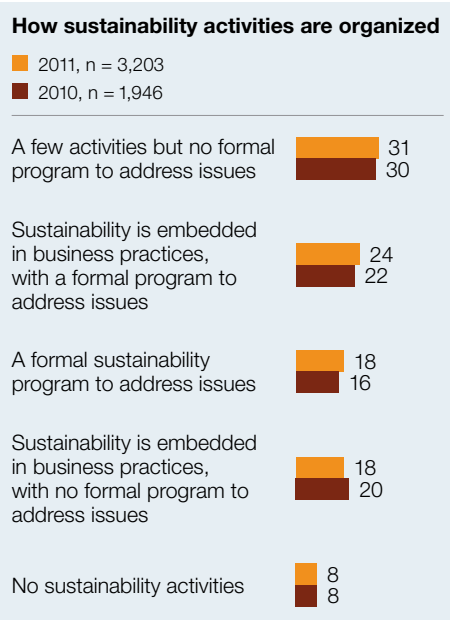


Exhibit 3

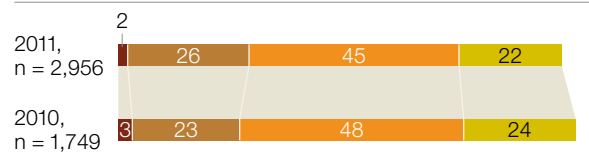
### Little change across leadership criteria

% of respondents<sup>1</sup>



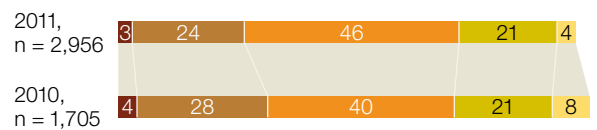
**Where sustainability falls on the CEO's global agenda**

Legend: Most important agenda priority, A top-three agenda priority, A priority, but not top three, Not a significant agenda item



**Company's overall effectiveness at managing its sustainability**

Legend: Extremely, Very, Somewhat, Slightly, Not at all



<sup>1</sup> Respondents who answered "don't know" are not shown; in 2010, "don't know" was not given as an answer choice in the overall effectiveness question.

<sup>7</sup> Respondents in this group say sustainability is either the most important or a top-three priority on their CEOs' agenda, that it is embedded in their companies' business practices, that their companies have a formal program to address related issues, and that their companies manage sustainability very or extremely effectively. This year's analysis is not fully comparable to the 2010 sustainability survey, because "leaders" in the most recent survey include energy industry respondents, whereas the 2010 survey excluded them from the leaders group.

<sup>8</sup> McKinsey's research on sustainability and value creation has allowed us to develop a framework that shows how sustainability creates value for companies with three levers.

agendas, and about the same share of respondents say they have formal programs to address it (Exhibit 3). The share of respondents saying their companies effectively manage sustainability has even shrunk somewhat. Starting last year, we used these three characteristics to define a group of "sustainability leaders,"<sup>7</sup> companies that are more adept at capturing value through sustainability along various measures that the survey asked about.

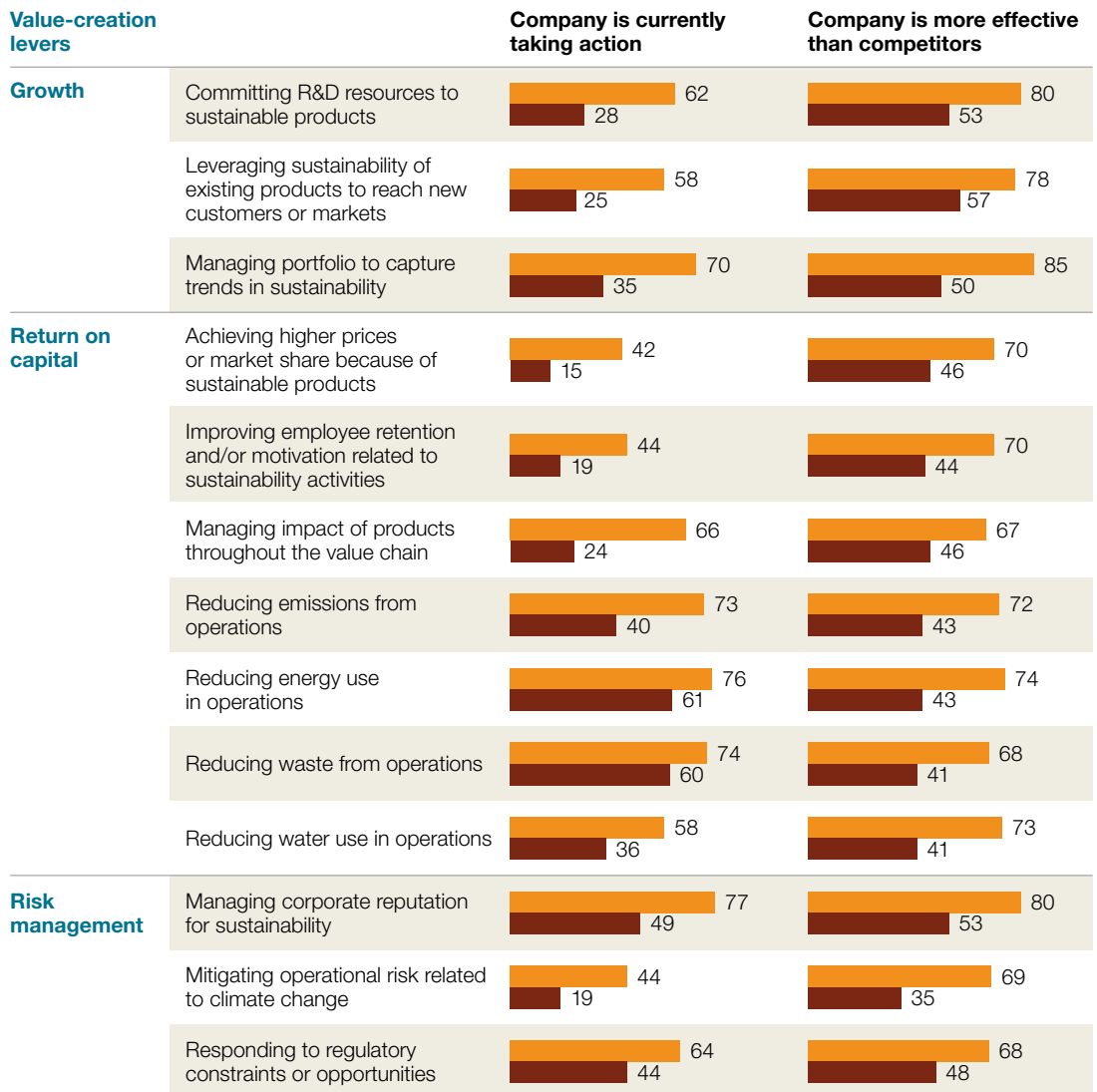
#### Leading the way with a strategic approach

In general, respondents from companies in the leaders' group say their companies do more on every aspect of sustainability; this is especially true in the areas of growth and risk management that, along with return on capital, are three ways in which sustainability can create value based on McKinsey research<sup>8</sup> (Exhibit 4). For example, 94 percent say their companies have integrated sustainability into strategic planning, versus 53 percent of all other respondents. Compared with the integration of sustainability into other processes, however, the leaders' supply chains and budgets are less integrated; respondents at other companies report this pattern as well. In addition, respondents in the leaders' group

Exhibit 4

**Leading with action**% of respondents<sup>1</sup>

■ Sustainability leaders, n = 293  
 ■ All other respondents, n = 2,663



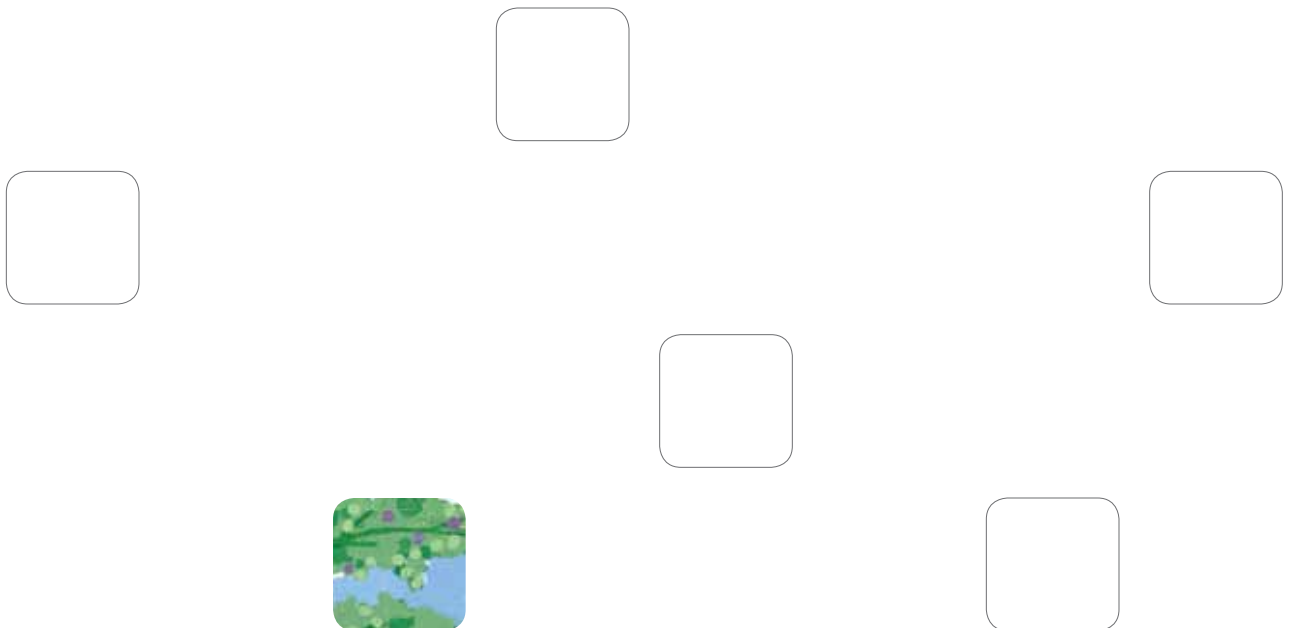
<sup>1</sup> Respondents who answered “don’t know” or “none of the above” are not shown.



are more likely than other respondents to report that their companies are pursuing each of the 13 actions related to sustainability listed in the survey, and they rate themselves more effective at taking action, relative to competitors, more often than the rest of respondents do.

Executives in the leaders' group are also more likely to say their companies are taking higher-level, more strategic actions: much higher shares of leaders are managing their business portfolios to capture trends in sustainability and committing R&D resources to sustainable products. Furthermore, just 9 percent of respondents at these companies say they have sustainability programs in place to respond to regulatory requirements, compared with 25 percent of all other respondents. Those in the leaders' group are more likely to say instead that sustainability is aligned with their goals, mission, and values (59 percent versus 28 percent of all others) and that it strengthens their competitive position (43 percent versus 24 percent).

It's likely related that executives in the leaders' group are more than twice as likely as all others to say their companies capture value from sustainability opportunities. Indeed, 30 percent say they are capturing all the value they can, versus 9 percent of all others. And while all respondents struggle with the pressure of short-term earnings performance



## Exhibit 5

**Fewer barriers for leaders**% of respondents<sup>1</sup>

■ Sustainability leaders, n = 293  
 ■ All other respondents, n = 2,663

**Barriers that prevent companies from capturing potential value from sustainability initiatives**

<sup>1</sup> Respondents who answered "don't know" or "other" are not shown.

as a barrier to value creation, the leaders struggle less with leadership, systems, and processes that enable organizations to drive value through sustainability (Exhibit 5).

Executives whose companies fall into the leaders' group also report that employees at all levels are far more knowledgeable about their companies' sustainability activities—and that sustainability is more important for attracting and retaining employees—than respondents at other companies.<sup>9</sup> This finding suggests that the integration of sustainability extends far beyond business practices at these companies.

<sup>9</sup> Within the leaders' group, 23 percent of respondents say their companies' performance on sustainability issues is one of the most important factors for attracting and retaining employees, while 5 percent of all other respondents say the same.

It's important to note that the mix of industries represented in the leaders' group differs from the full group of respondents to the survey. A handful of industries—arguably those with a higher impact on environmental issues such as resource use and emissions, whose need to be more proactive on sustainability to effectively manage their future business is more urgent—are overrepresented: energy, extractive industries, manufacturing, and transportation. Relatively few respondents from finance, retail, and business, legal, and professional services are in the leaders group.

### Value creation and industry

The fact that some industries are overrepresented in the leaders' group highlights differences in emphasis on and effective management of sustainability across industries. This carries over to value creation. Overall, the relationship between sustainability and quantifiable value is still somewhat unclear, executives indicate: about one-third of respondents say they don't know how much sustainability initiatives add to shareholder value at their companies. In addition, the share that rate sustainability's contribution to short-term value as positive has only inched up since last year's survey, to 48 percent.

However, respondents do cite several different levers for value creation over the next five years. Among the top are managing corporate reputation, capturing sustainability trends in the business portfolio, and committing R&D resources to sustainable products; across industries, the relative importance of each effort varies (Exhibit 6).

Respondents at consumer and B2B companies diverge on the levers that could drive longer-term value creation. Respondents in both groups expect reputation to add a similar level of significant value, or more than 11 percent of shareholder value—indeed, it's the most frequently selected action by respondents at consumer companies. Among B2B respondents, however, the highest share (23 percent) say managing their business portfolios to capture sustainability trends adds significant value to companies in their industries, compared with 15 percent of consumer respondents. Achieving higher prices or greater market share through sustainable products, committing R&D resources, and responding to regulations has more value potential for B2B companies, executives say, while those at consumer companies see more potential in managing sustainability through the value chain, water use, and waste.

Across industries, executives also differ in how they view barriers to value creation. Those at extractive firms point to a lack of capabilities (25 percent versus 15 percent of all respondents) and lack of incentives tied to sustainability performance (42 percent versus 32 percent) as being bigger barriers than they are for respondents in other industries. Higher shares of transportation respondents than the average also cite lack of incentives



Exhibit 6

### Value varies by industry

% of respondents

Value-creation levers		Total, n = 3,203	Industry, top three most cited activities <sup>1</sup> with potential to create significant value over the next 5 years
<b>Growth</b>	Committing R&D resources to sustainable products	17	Energy (2), high tech/telecom (3), manufacturing (1)
	Leveraging sustainability of existing products to reach new customers or markets	15	Health care/pharma (3)
	Managing portfolio to capture trends in sustainability	20	Energy (1), extractive services <sup>2</sup> (3), finance (2), high tech/telecom (1), manufacturing (2), retail (3), transportation (2)
<b>Return on capital</b>	Achieving higher prices or market share because of sustainable products	13	
	Improving employee retention and/or motivation related to sustainability activities	11	Finance (3), health care/pharma (2)
	Managing impact of products throughout the value chain	13	Retail (1)
	Reducing emissions from operations	10	
	Reducing energy use in operations	15	Extractive services (3), retail (3), transportation (1)
	Reducing waste from operations	13	Retail (2), transportation (3)
	Reducing water use in operations	9	
<b>Risk management</b>	Managing corporate reputation for sustainability	20	Energy (3), extractive services (1), finance (1), health care/pharma (1), high tech/telecom (1), manufacturing (2), retail (3), transportation (2)
	Mitigating operational risk related to climate change	8	
	Responding to regulatory constraints or opportunities	13	Energy (3), extractive services (2), health care/pharma (3)

<sup>1</sup>Numbers 1, 2, and 3, in parentheses, indicate the first, second, and third most frequently chosen activities within each industry.

<sup>2</sup>This group includes respondents from the coal, metal, oil and gas extraction, petroleum and natural gas distribution, petroleum refining, and other mining subindustries.



(45 percent), while fewer executives at energy firms select most of the barriers presented, perhaps suggesting that they've been thinking about sustainability and value longer than others. Some in the energy sector do still cite key performance indicators (KPIs) and integrating sustainability into their performance management systems as concerns. Executives at retail firms are more likely to report barriers—except for organizational structure and a disconnected sustainability department—than the average.

### Looking ahead

- Companies are not doing as much to integrate sustainability into internal communications or employee engagement as they are into other areas of business, such as strategic planning. With 53 percent of respondents saying company performance on sustainability is at least somewhat important to attracting and retaining employees, companies that take action are more likely to gain an advantage in employee retention. The leaders are better at engaging employees on this issue (and at keeping employees at all levels more informed), suggesting that it's possible to make the most of this opportunity in sustainability.
- Our experience in working with companies in different industries on sustainability aligns with the survey findings that different industries use different levers (growth, return on capital, and risk management) to create significant value. There's no single way to create value from sustainability, so knowing where the biggest opportunities for value creation are in an industry—and where the risks and barriers lie—can serve as a guide for developing sustainability strategies.
- Coupled with the shift in reasons for pursuing sustainability, from reputation management to operational improvements and new growth opportunities, the overall high degree of integration seems to indicate that companies have become more businesslike about their sustainability agenda. Most companies, however, are still struggling to factor sustainability into the “hard” areas of their business, such as supply chain and the budget, so there is still a lot of potential to drive further integration and increased value creation. Where leaders and all others diverge most is around KPIs, organizational structure, and leadership engagement; these may be high-potential areas for companies striving to become sustainability leaders. □



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