

Sustainability

It's the leadership frontier.



by James Cerruti

THE CRITERIA THAT define leadership have evolved—from excellence in R&D and new product development, to operational excellence, process reengineering, core competencies, and innovation. Today the framing of leadership is shifting again—to a concept that encompasses the best practices from all the antecedents: *sustainability*.

This is not surprising, given the intense competition for resources.

The move towards *sustainability* is not simply the pursuit of a worthy cause, nor mollifying the concerns of a particular NGO or shareholder group. Rather, it is recognition that those who can make efficient and responsible use of natural resources and human capital are more likely to be the destination of choice for talent and investment. It is a virtuous circle: *the organization does well by doing good.*

More leaders recognize that organizational reputation, defined by both deeds and rhetoric, is a key measure of competitiveness—and *sustainability* is a key criteria for judging the quality of companies and their leaders among investors, supply chain partners, and talented young people entering the workforce. These stakeholders are influenced to a greater degree than customers, for whom purchase decisions are focused more on features, benefits, and value than on a company's long-term sustainability.

The concept of *sustainability* extends beyond environmental impact. Today, sustainability assessments include environmental and social practices and related governance (ESG). Accepted ESG benchmarks such as the Global Reporting Initiative (GRI) standards are emerging to assist those who seek *sustainability leadership*. However, leaders wonder where to focus investments or how to integrate *sustainability* into strategy and brand communications.

Examining Sustainability

This year we conducted a global study to shed light on how well firms at the top of major industries are responding to the new leadership challenge. The premise is that best-practice corporate

reputation building demands both operational excellence and compelling story telling. So, we set out to measure the ESG standing of 100 prominent companies, in a way that compares *real* with *perceived* performance.

The ratings of *actual performance* were provided by CRD Analytics, supplier of data for the *NASDAQ Sustainability Index*. For the *perception ratings*, we conducted our own survey to obtain the views of the core constituencies who are most attentive to sustainability performance. The *perception survey* concentrated on investment professionals, purchasing/supply management professionals, and graduating university students.

By comparing companies on these two dimensions, we identified several true *Leaders* who scored high in both *actual* and *perceived* sustainability performance. These leadership teams excel in both the *operational* and *communications* dimensions of sustainability. Other companies may excel on one dimension or the other, but not both (*Promoters* had high perception/low scores, while *Challengers* trailed in perception but did well in performance). *Laggards*, trailed on both dimensions.

Five Shared Traits

Five traits were shared by Leaders:

1. Sustainability is an integral part of business strategy (not just a *compliance* issue). Nestlé has focused its strategy around “creating shared value,” which combines adherence to key operating principles and achievement of targeted societal improvements in the communities. Nestlé found ways to collaborate with local leaders to improve nutrition, water quality, and rural development. Success in such efforts is seen as crucial to Nestlé's future success and integral to *business strategy* and *corporate reputation*.

2. Responsibility is taken for the impact of internal operations, and of associated entities such as supply chain partners. ABB takes responsibility in three areas: 1) *raising environmental performance/lowering impacts*; 2) *improving management of health, safety, social, environmental and security risks*; and 3) *improving sustainability performance in its supply chain and acquired companies*.

The ABB Supplier Code of Conduct (SCC) defines standards for companies wishing to sell to ABB and requires suppliers to be responsible for the *sustainability performance* of subcontractors.

3. GRI standards for reporting are im-

plemented, and the issues they highlight are understood by all stakeholders.

Leaders excel at meeting these standards fully and transparently, even those that may not seem relevant. BMW has quality and thoroughness in sustainability reporting. Its top ranking for seven years running in the *Dow Jones Sustainability Index* is testimony to its leadership. The story is told eloquently, with reporting broken into **three focus areas**: *product responsibility* (97 percent product recyclability designed in); *environmental protection* (identifying measures for protection at early stages of investment), and *society* (road safety, education, and health).

4. Sustainability is integrated into the brand and client value propositions.

IBM decided early to integrate *sustainability* into its brand and customer value propositions. It used its *Smarter Planet* theme to communicate how IBM helps clients enhance their performance in ways that foster sustainability. Recent IBM ads focus on *outcomes* and *social benefit*, rather than *products* and *services*.

5. Operational initiatives and related communications are focused on carefully selected themes tied to the core of the business. Complementary communications to key stakeholder groups are used to get the word out. Cisco Systems concentrates on demonstrating leadership on two issues, closely linked to its business and brand. *Socially*, Cisco is focused on education—helping people worldwide develop and use IT skills. The environmental theme is *Energy-wise*—helping customers reduce greenhouse emissions and create smart buildings.

Embrace Sustainability

Top companies have embraced *sustainability reporting and practices*—and not merely a reporting exercise, though full and transparent disclosure is essential. Rather, *they have integrated sustainability themes into their corporate stories, mission, vision and values and in many cases, directly into their brand and customer value propositions*. They know that *sustainability* encompasses social and governance factors as well as the environment.

Companies that display leadership in this emerging field are positioned to excel. They're taking the high ground by *building sustainability into the business* and by *informing others of their efforts*. LE

James Cerruti is the author of the Sustainability Leadership Report; measuring perception vs. reality. To download the report, visit www.sustainabilityleadershipreport.com.

ACTION: Integrate your sustainability initiatives.

