Compatible Aims: Sustainability and High Performance

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No company today can avoid the issue of sustainability. How to approach this challenge remains an open question, however, as it can seem to be much more about what not to do than about outperforming the competition. In reality, leading companies are already turning sustainability to their advantage by applying the three building blocks of high performance.

Sustainability and Markets

The term "sustainability" has become ubiquitous.

It's on the front page of newspapers, increasingly found in corporate reports, a feature of political debates, and on the minds of growing numbers of the public. What's not always clear is what sustainability means, especially in a business context.

In fact, sustainability represents a multi-pronged challenge to the status quo in business. People, whether as citizens, consumers or employees, are insisting that business take positive measures to keep cities and towns habitable. Regulators and watchdog groups demand that businesses employ practices that serve people and planet, as well as profit. Investors are assessing the future value of companies according to their ability to address the social as well as the environmental dimensions of sustainability. All of these challenges raise the specter of rising costs, new risks and a hopelessly complex tangle of regulations that could stymie even the most eco-friendly companies.

Accenture's five-year program of research on high performance leads us to a different conclusion, however. Having extensively researched the components of high performance during that period and analyzed them in light of sustainability's requirements, we believe that high performance and sustainability are entirely compatible aims. That is, the same fundamental capabilities that enable some organizations to consistently outperform their peers can also enable them (and others) to successfully overcome the challenges of sustainability and, at the same time, to prevail as market competitors.

This doesn't mean that status as a high performer in 2008 guarantees that a business will remain one for the next five to ten years–the period in which the demand for sustainable growth is likely to have its greatest impact. Our research suggests, rather, that businesses with a sound grasp of the building blocks of high performance have a strong foundation on which to develop a winning approach to sustainability. We are convinced that staying focused on achieving high performance is even more important during turbulent economic times, such as these.

In this report, we'll explain how sustainability has become a critical issue on the corporate agenda, why companies need to rethink the issue of value, and how some leaders are reshaping their strategies, capabilities and cultures to their advantage—and setting the tone for other businesses to emulate. Our goal is to arm executives with a new pair of lenses with which to view the implications of sustainability for business. One lens–an execution lens–seeks to clarify what sustainability means in business execution terms: how it is changing both the supply and demand sides for companies and the rules by which they must operate. The other lens –a performance lens–draws on Accenture's research to show how the three building blocks of high performance have already proved valuable as a means of addressing the sustainability challenge.

Why now?

The concept of sustainability has changed shape over the past 40 years. In the early 1960s, the publication of Rachel Carson's Silent Spring jolted the public into higher levels of concern over threats to the environment. Concern about toxins like DDT and airborne pollution led to the formation of the US Environmental Protection Agency and a stricter regulatory regime for business in the United States and Europe. In the early 1970s and 1980s, spiraling energy costs–triggered by oil embargoes–and environmental mishaps led a wide array of groups–including students, politicians, non-governmental organizations (NGOs)–to turn the spotlight on conservation and pollution control. Over the past decade, sustainability has grown to encompass "the triple bottom line," a phrase coined in 1994 by John Elkington that draws attention to the linkage between economic, environmental and social outcomes.

In simple terms, sustainable initiatives are now part of the corporate mainstream. That's why we believe it makes more sense to define sustainability as the drive to accomplish economic growth while maintaining natural ecosystems and ensuring the equitable distribution of the goods and services economic growth provides. Consider these examples:

• In late 2007 Asda, the Wal-Mart owned UK grocer, announced that its sustainability program was on track to deliver £120 million of costs saved or avoided over the next five years. In 2008 alone, Asda aims to deliver cost savings of about £40 million. More than 25 percent of those savings are projected to come from reduced packaging on its own-label foods and from avoiding landfill tax. Not to be overlooked is the fact that reduced packaging trims the energy consumption of its transportation fleet and in its stores. Asda executive director John Longworth explained the cumulative benefits of such initiatives this way: "Our view is that it is a virtuous circle: we go green, save money and pass on savings to customers."[1]

• Soaring costs have put saving energy at the top of every company's list, but Europe's biggest semiconductor maker, STMicroelectronics, has explicitly linked environmental impact, energy savings, and efficiency for the nearly 15 years. Led by a former CEO with an environmentalist's mindset, Pasquale Pistorio, the company focused on revamping its factories to use less energy. According to director of quality and corporate responsibility Georges Auguste, the company invested some $300 million between 1994 and 2006 toward that end. The estimated ROI was significant: a net of more than $1 billion over that period.[2] Solutions like these that reduce stress on the environment while earning companies a significant monetary payback exemplify the compatible nature of sustainability and high performance.

• Anglo American, the UK-based mining company, has made the HIV-AIDS epidemic in southern Africa a focal point of its operational definition of sustainability. The company set three goals: no new HIV infections for employees, no employees or family members becoming sick or dying from AIDS, and no employees' children born HIV-positive. In southern Africa, these goals are not only socially significant, they are also critical to the stability of the large labor force on which Anglo American depends in the region—some 60 percent of its workforce is located there. In 2006, for example, 111, 000 employees participated in the company's HIV and AIDS programs; some 23,000 are HIV-positive. By the end of that year, the company was providing 4,600 employees with anti-retroviral therapy, and Anglo American reports that 95 percent were "carrying out their normal work and leading normal lives."

Figure 1: Sustainability's Business Driver

In recent years, three powerful forces have amplified the salience of sustainability to business: globalization, climate change and information technology. As companies expand their global footprint, they become more deeply entangled in a complex web of competing economic, legal, cultural and environmental claims. The search for price advantages and new markets carries with it the risk that global businesses will have to assume responsibility for complaints regarding unfair labor practices, environmental degradation, and so on. Fears over climate change have contributed to the public's sense that corporations, especially in certain industries, must work with governments and non-governmental organizations to heavily reduce their carbon usage through conservation, cap-and-trade regulations and the creation of innovative products. Finally, information technology makes available vast resources of information on the state of the planet, economic development and business success. Individuals can also easily join with like-minded people and groups to support new regulations and to pressure business to change.

As the concept of sustainability continues to develop in light of these forces, companies will have to rethink strategies and processes and how they are providing value to customers, employees and other stakeholders. We believe that the economic conditions that have arisen in recent months reinforce the importance of flawless execution through a heightened focus on internal controls and prudent business operations.

Viewing Sustainability through the Lens of Execution

In a rapidly changing business context, gaining competitive advantage can be daunting. Accenture believes there are six key sustainability drivers of change on which executives should begin acting now to gain competitive advantage. Broadly speaking, these drivers represent the impact sustainability has on changing supplies available to businesses, changing demands being placed on businesses and changing rules of the game that businesses need to comply with (see Figure 1).

Changing Supply

Sustainability is both highlighting and driving changes in the critical supplies that businesses rely on to create value. In particular, businesses' operating costs are on the rise as a result of the heightened demand for and depletion of the Earth's natural resources. Employees (both current and potential) are casting a more interested eye towards companies' efforts to attend to sustainability; recent surveys suggest that employees are beginning to assess companies' sustainability strategies in employment decisions. Businesses, especially those in heavy carbon emitting industries, are discovering that the capital markets are focusing in on businesses' sustainability initiatives when making financing and stock recommendation decisions.

Natural resources

Perhaps no other issue has galvanized such attention and debate in the domain of sustainability than climate change. Regulations are being developed that will alter the price of carbon at all levels of the local and global economies, and more regulations are on the horizon.[3] These new rules will affect fossil-fuel-based energy and resource pricing and availability, creating a ripple effect throughout a company's entire value chain.

Robust economic growth in emerging economies, combined with the high requirements of Western economies, has caused fierce competition for natural resources, particularly energy and water. It also has increased carbon dioxide (CO^2) emissions, which contribute to global climate change. A report by Sir Nicholas Stern, former chief economist for the World Bank, puts the annual worldwide costs of reducing GHG emissions to 500 to 550 parts per million at around 1 percent of global GDP. But the Stern report goes on to point out that if we do nothing, "the overall costs and risks of climate change will be equivalent to losing at least 5 percent of global GDP each year. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20 percent of GDP or more."[4]

1 James Thompson, "Asda Green Drive on Target to Land £120m Cost Savings," Retail Week, November 8, 2007.
2 Leila Abboud and John Biers, "Business Goes on an Energy Diet," Wall Street Journal, August 27, 2007; R1.
3 Andrew Hoffman, and John Woody, Climate Change: What's Your Business Strategy? (Boston: Harvard Business School Press, 2008).
4 Sir Nicholas Stern, The Economics of Climate Change: The Stern Review (Cambridge, England: Cambridge University Press, 2007).

The UN Framework Convention on Climate Change estimates that the private sector will need to invest more than US$600 billion every year through 2030 to stabilize CO^2 emissions.

The price to attend to sustainability is huge, but so is the prize. A company might ask itself, for example, whether cutting GHG emissions could reduce costs and exposure to various business risks.[5] For example, DuPont has identified the most promising growth markets in the use of biomass feedstock that can be used to create new bio-based materials such as polymers, fuels and chemicals, applied bio-surfaces and biomedical materials. The company hopes to have 25 percent of its revenue come from such non-depletable resources; as of 2007, it was two-thirds of the way toward meeting that goal.

Employees

In the face of an aging workforce and global competition for talent, organizations that take sustainability seriously are well positioned to attract and retain the most qualified employees, studies indicate. Recruits in the labor pool, particularly among the younger segment, are increasingly considering either a company's posture on sustainability issues or the connection between their job and sustainability. College graduates today are much more mission-oriented than those in the past, and they are looking for companies that match their personal values.[6] If the company they join does not reflect their beliefs, they are more likely to push their values on the company than let the company push its values on them.[7]

Companies with well established sustainability strategies might have an advantage in recruiting top talent. For example, recent research suggests that some MBAs are looking for a sustainable job as well as a sustainable company. According to a 2008 study by the Aspen Institute's Center for Business Education, 25 percent of MBAs are seeking a job with the potential to make a contribution to society, up from 15 percent in 2002.[8] Monster.com found that 80 percent of students are interested in a job that positively affects the environment.[9]

Good sustainability practices also have the benefit of increasing retention. Novo Nordisk, a Danish pharmaceuticals company, has seen its turnover rate drop to 5 percent, half the industry average, since it initiated its "Values in Action" program as a way to infuse sustainability principles into its strategy.[10] Interestingly, an analysis by the Pew Center on Global Climate Change also found that companies' greenhouse gas reductions motivated their employees and drove innovation.[11]

Capital Markets

Before the financial crisis engulfed US financial services firms, several investment houses were taking the lead to integrate sustainability into their capital markets activities. While most of these companies have recently reaffirmed their commitment to their sustainability initiatives, their level of continued commitment bears further watching. The investment houses leading the way to integrate sustainability into their activities include JPMorgan, Citigroup and Morgan Stanley. These companies have developed lending guidelines that make it tougher for investor-owned utilities to build coal-fired power plants because of the risks associated with CO^2 emissions. In addition to forming the Equator Principles, Citigroup, Morgan Stanley and J.P. Morgan established the "Carbon Principles" in February 2008. These banks, in consultation with several power companies and NGOs, established "a process for understanding carbon risk around power sector investments needed to meet future economic growth and the needs of consumers for reliable and affordable energy."[12] Bank of America, which also recently adopted the Carbon Principles, has gone one step further, establishing an internal price of carbon per ton, reported to be between $20 and $40, which the bank is using to determine whether to underwrite debt for coal-fired power plants.[13]

Investors have begun to consider sustainability performance as an indicator of business performance and a new lens through which to scrutinize the quality of management. For example, institutional shareholders are joining forces to put pressure on companies to disclose information about their sustainability efforts. About 280 institutional investors, representing over $57 trillion, have become members of the Carbon Disclosure Project (CDP) since 2000. The CDP urges companies to annually publish data about their carbon emissions. This united front seems to be working: in 2007, over 1,300 companies formally disclosed data and other climate-change-related information. Similarly, CERES has been working since 1989 to integrate sustainability into capital markets. It directs the Investor Network on Climate Risk (INCR), a group of more than 60 leading institutional investors with collective assets of $5 trillion. The INCR is using this massive shareholder pressure to force companies to address sustainability.

The increased pressure by the financial markets is causing companies' cost of capital to increase. Some companies, primarily those focused on developing new coal-fired power plants, are finding it more difficult to raise capital as investment banks such as Bank of America begin to factor in an assumption for the price of carbon. This kind of increased scrutiny is also putting more pressure on management teams and making them more accountable for their sustainability efforts.

Changing Demand

Businesses are also being affected by changing demands on the value they provide and the methods they employ to do so. Consumers are feeling the economic pinch of sustainability through such levers as inflating fuel and food prices. In response, consumers are taking their role as global citizens more and more seriously; this heightened sense of responsibility is starting to influence what consumers purchase and the companies they purchase goods and services from. Adding to this pressure on businesses to change, a broad range of stakeholders, NGOs prominent among them, are seeking (and in many cases succeeding) to influence or even veto the core processes that businesses employ to produce and distribute goods and services.

Consumers as Citizens

Changing consumer expectations and behavior hold the promise of a material impact on companies' value creation, profitability and growth efforts. For example, nine out of ten consumers around the world say they are ready to switch to energy providers offering products and services that help reduce carbon emissions—and two-thirds are willing to pay on average 11 percent more for the privilege.[14] Consumers read labels more avidly than ever, scrutinizing not just a product's content but also the process required to put it in their hands. They pay more attention to ethical and environmental concerns, including the use of child labor, the procurement of conflict diamonds, the spread of HIV/AIDS, human rights abuses and the rising amount of non-recyclable waste.

Evidence suggests that consumers can now be segmented by their beliefs toward sustainability.

5 Andrew Hoffman, "Climate Change Strategy: The Business Logic Behind Voluntary Greenhouse Gas Reductions," California Management Review 47, no. 3 (2005): 21–46.
6 Paul Ray and Sherry Ruth Anderson, The Cultural Creatives (New York: Harmony Books, 2000).
7 Debra Meyerson, and Maureen Scully, "Tempered Radicalism and the Politics of Ambivalence and Change," Organization Science 6, no. 5 (1995): 585–601.
8 Bronk, K., "The Do-Good Disconnect," BusinessWeek.com., April 22, 2008.
9 Based on July 2007 survey of 4,700+ MonsterTRAK job seekers, http://media.monster.com/monstertrak/GreenCareers_092407.pdf (accessed July 29, 2008).
10 Novo Nordisk, Annual Report (Bagsvaerd, Denmark: 1999).
11 Michael Margolick and Doug Russell, Solutions: Corporate Greenhouse Gas Reductions (Washington, DC: Pew Center on Global Climate Change, 2001).
12 Citigroup press release, http://www.citigroup.com/citigroup/press/2008/080204a.htm (accessed May 5, 2008).
13 Wall Street Journal Environmental Capital blog, http://blogs.wsj.com/environmentalcapital/2008/02/13/bank-of-america-puts-a-price-on-carbon/ (accessed May 5, 2008).
14 End-consumer Survey on Climate Change, Accenture, 2007.

For example, according to the 2007 BBMG Conscious Consumer Report, 87 percent of consumers would like companies to commit to environmentally friendly practices to support fair labor and trade practices. The same survey also showed that most U.S. consumers are concerned about the use of pesticides, hormones or chemicals in food (70 percent), renewable energy (73 percent) and fair wages and safe working conditions (81 percent). An overwhelming majority of U.S. consumers feel that clean air (86 percent) and safe drinking water (90 percent) are top issues.[15]

For many companies, the economic climate today is fostering a renewed focus on retaining customers and strengthening their brands. In the context of sustainability, this means that companies that meet the green needs of today's consumers are likely to benefit and get ahead of their "browner" competitors. Clorox, for example, has recently cut into the domain of more niche first-mover companies like Seventh Generation by introducing a new line of green cleaning products. Whirlpool, too, in anticipation of greater consumer demand for less energy-intensive products, is leveraging its core competencies to continue bringing the most energy-efficient appliances to market. [16] Toyota's Prius, perhaps the most successful green product in the U.S., meets consumers' driving needs while also providing gas savings from its fuel-efficient hybrid engine.[17] A unique screen provides the driver with real-time feedback on how much fuel is being saved at any given moment. In 2007, Toyota won 16 percent of the U.S. market, which was over double its share ten years ago.[18] Beyond the benefits to Toyota, the Prius has inspired competitors to develop hybrid cars and buses, further benefiting consumers and the environment.

Stakeholder Influence

Businesses and public sector organizations must answer to an expanding group of stakeholders, including NGOs, the media, academia, and influential individuals and celebrities. All of them have fresh demands and increasing power to threaten a company's commercial viability. Their perception is your reality, regardless of the facts.

The increasingly powerful voice of NGOs worldwide exemplifies the increasing influence of these new stakeholders. NGOs are more successful than ever at mobilizing public opinion on environmental issues and holding large corporations responsible for their impact on society and the environment. Some NGOs may picket a company's facility or file lawsuits; others may meet with a company's management team to work out solutions; still others may work with legislators, investors, banks or even clerics to call attention to the company's treatment of sustainability.

Some NGOs actively engage businesses to help them find solutions to difficult environmental and social problems. For example, moving beyond its early style represented by their informal slogan "Sue the bastards," the Environmental Defense Fund (EDF) now has the motto "Finding the ways that work." EDF has partnered with some of the largest corporations in the world, including FedEx, UPS, SC Johnson, Starbucks and McDonald's, resulting in some of the most innovative and high-impact corporate partnerships today. In fact, the attractiveness of NGO-corporate alliances has grown to such proportions that the demand now appears to exceed the supply. Gwen Ruta, the vice president of corporate partnerships at the Environmental Defense Fund recently shared with us that "Eighteen months ago, I was happy when anyone returned my calls — now I hardly have time to return all of theirs."

Companies' reactions to stakeholder pressure can demonstrate leadership in sustainability. Global Witness lobbied De Beers to stop trading in conflict diamonds in 1998; today the company leads advocates of the Kimberley Process Certification Scheme to ensure that rough diamonds are conflict-free. Nike suffered consumer boycotts in the 1990s over the use of child labor in its contractors' sweatshops; today the company is viewed as a sector role model for human rights policies because it implemented changes.

Changing the Rules of the Game

Citizens and stakeholders collective calls for action to attend to sustainability are helping spur environmental and social policy change across the world. Businesses need to ensure their compliance with the emerging policy changes in the locations in which they operate. In many instances businesses see that regulatory change is coming and are actively working within industry peer groups to either self-govern their actions or at least prepare for and influence this coming regulatory change.

Policy and Regulation

National or global regulation on sustainability creates winners and losers. While it can disrupt and even destroy existing business models and industry structures, it also can create a positive platform for change by reducing business uncertainty and creating new market opportunities. In the area of climate change, four out of five business leaders want governments to take a central role in tackling the issue.[19] They feel this way even though there is no agreement over how best to standardize requirements across countries and create incentives for businesses and consumers to change their behavior.

Not wishing to wait for government regulation to set the rules, more companies and industries are establishing their own environmental or social guidelines. Self-regulation helps companies preempt government mandates. It also drives innovation through more indirect incentive-based approaches to anticipated regulations. These programs force the laggards within a sector to come up to the standards set by the collective.

Self-governing mechanisms come in many forms. They can be initiated by companies, nonprofit organizations or other interest groups. Some are inter-or intra-industry agreements; others cross sectors to include suppliers, buyers and private-public partnerships. Member organizations might benefit in reputation and branding, or from having access to the latest information and standards. Adoption of best environmental practices can also give companies early-mover and cost advantages and help them to differentiate themselves from competitors.

Most programs set standards to which all members must abide. For example, the world's largest self-governing corporate-citizenship initiative is the 2000 UN Global Compact, a framework for businesses committed to ten principles related to human rights, labor standards, forced labor, child labor, discrimination, environmental responsibility and anticorruption. The initiative has over 5,200 participants, including more than 4,000 businesses in 120 countries. Similarly, the Equator Principles requires its 60 participating banks (accounting for as much as 78 percent of all project finance in 2003) to assess projects for their social and environmental impact before making lending decisions.

Some programs are more targeted in their approach and involve direct alliances with NGOs. For example, Unilever, one of the world's largest buyers of seafood, partnered in 1999 with the World Wildlife Fund to establish the Marine Stewardship Council (MSC). The goal of the MSC is to harness consumer purchasing power to generate change and promote environmentally responsible stewardship by reversing the continuing decline in the world's fisheries. As of 2007, thirty-eight retailers, 49 manufacturers and 14 food service companies use the MSC brand, and more than 300 suppliers participate in the program. It is estimated that over 7 percent

15 BBMG, "BBMG Conscious Consumer Report" (2007).
16 Andrew Hoffman, Getting Ahead of the Curve: Corporate Strategies That Address Climate Change (Arlington, VA: The Pew Center on Global Climate Change, 2006).
17 Jacqueline Ottman, "The Five Simple Rules of Green Marketing," Sustainable Life Media, June 2007.
18 Chuck Salter, "Fast 50: The World's Most Innovative Companies," Fast Company, March 2008.
19 Achieving High Performance in an Era of Climate Change, Accenture, 2008

of the world's edible wild-capture fisheries are now participating in the program.

A slightly different kind of initiative is showcased in the U.S. Climate Action Partnership (USCAP). Rather than pushing its internal members to adopt new standards, its 32 business members are pushing the federal government to enact legislation that requires significant reductions of greenhouse gas emissions.

Bottom line: sustainability is a comprehensive management challenge because it has implications for all the major functions of corporations. (see Figure 2.) For example, changing consumer interests must be absorbed by marketing. HR needs to come to grips with the talent pool's growing interest in working with companies focused on sustainability. The desire for increased transparency and the financial markets' growing evaluation of companies' sustainability efforts have major implications for finance. Operations' leaders must concentrate on eliminating energy inefficiencies, ensuring suppliers' compliance to a code of conduct and ensuring access to critical natural resources. Similarly, information technology has to minimize the energy inefficiencies in older technologies. And the fact that markets are poised for further change requires new strategic thinking.

Figure 2: Sustainability's Influence on Corporate Functions

Function	Impact
Marketing	Changing consumer interests might lead to missed opportunities. The need to align sustainable consumption and production.
Talent Management	Talent pools growing interest in working with companies that attend to sustainability.
Finance	Staheholders' demand for increased transparency. Finacial markets' growing evaluation of companies' sustainability efforts.
Operations	Eliminating energy inefficiencies in owed operations. Ensuring suppliers' compliance with a code of conduct. Ensuring access to needed (and limited) resources, such as water and energy.
Information Technology	Need to minimize the energy inefficiencies in older technologies. Developing technologies to minimize the need for virgin materials used to provide value to consumers.
Legal	New regulations with which to comply.
Strategy	The very markets in which companies compete are poised for further change. In some industries, the adaptation of sutainability is paramount to corporate survival.

Sustainability and the Performance Lens

Changing the way a company thinks about value creation and delivery may be daunting, particularly when many other business imperatives clamor for attention, but our research suggests that companies that aspire to high performance will take up the challenge.

Corporate leaders have faced multi-layered management challenges in the recent past, from the quality movement to the Internet revolution. And top performers have successfully surmounted these challenges. The best of them have out-performed competitors over long periods of time, through economic cycles, changes in leadership and industry disruptions. Following Accenture's five years of research on this topic, we call these companies high-performance businesses. While they reside in all industries and regions and vary widely in size, high-performance businesses all excel in the building blocks of high performance:

- Market focus and position—they know where and when to compete.
- Distinctive capabilities—they perform certain customer-valued critical activities better than their competitors.
- Performance anatomy—they create a set of "winning mindsets" throughout the organization that guide all employee activities and behaviors.

It is our contention that companies seeking to make sustainability into a source of advantage rather than a cost or a risk to be minimized will do so by pairing their execution lens with a performance lens. (For additional guidance on integrating sustainability throughout companies' organizations, see Accenture's 2008 publication Achieving High Performance: The Sustainability Imperative.)

Market focus and position

Should sustainability lead companies to rethink which markets they want to enter and where they want to be within them? Some businesses are already answering that in the affirmative.

For example, since its launch in 2005, General Electric's Ecomagination line of products has been an important source of new revenue for the company. GE's decision to launch Ecomagination was based on a view that energy prices would continue to rise and that regulations governing carbon emissions would be enacted in the foreseeable future.[20] GE's actions reflect a company that analyzed the markets in which it competes, became convinced that great change was on the horizon, and determined that it would need to make adjustments in order to succeed in this new world.

By 2007, GE's Ecomagination products were responsible for $14 billion in sales, putting the company on track to surpass its original goal of $20 billion in annual sales by 2010. In fact, GE has raised the bar on itself and now seeks $25 billion in annual sales of those products by 2010.[21]

Another company placing big long-term bets related to sustainability is Sharp, the Japanese company best known for its televisions. Sharp is investing more than $4 billion of its own money in a $9 billion factory near Osaka. When it is completed in 2010, it will be world's largest maker of LCD panels—and also of next-generation solar panels. The company sees its ability to manufacture high-tech panels as critical to its survival and growth. While the market for solar energy amounted to about $20 billion in 2007, one research firm estimates that the market could increase to $1 trillion by 2040. Sharp wants to be capture as much of that business as it can, and is investing today to position itself for the future.[22]

Such long-term thinking is critical for companies seriously engaging with sustainability. Consider the strategy of Exelon, a utility and power generation company based in Chicago. The company recently announced a goal to "reduce, offset or displace more than 15 million metric tons of greenhouse gas emissions per year by 2020." Exelon plans to reach that goal by reducing its own carbon emissions and by working with customers to reduce theirs. The company's website makes clear Exelon's commitment by announcing, "Global warming demands action. We're not waiting." For its efforts to date Exelon was recognized in 2006 by inclusion in the Dow Jones Sustainability Index for North America; the index tracks the financial performance of the leading sustainability-driven companies worldwide.

20 Amanda Griscom Little, "G.E.'s Green Gamble," Vanity Fair, July 10, 2006.

21 See GE, http://ge.ecomagination.com/site/news/press/2007revenues.html, viewed 7/11/2008.

22 Yukari Iwatani Kane, "Sharp Focuses on Manufacturing," Wall Street Journal, July 9, 2008; B1.

Distinctive Capabilities

What makes a capability distinctive? It's when a company successfully translates a "big idea" regarding customer needs into a unique set of connected business processes and resources that cost-effectively satisfy those needs. Increasingly, companies will need to filter their big ideas through the lens of execution, ensuring that their processes take into account the new demands, policies and regulations that sustainability is driving within their market sectors.

Consider how Clorox has approached the green-products challenge from both a market-focus-and-position perspective and distinctive capabilities issue. Clorox first conducted a consumer research program that concluded that almost half of all consumers would be interested in natural cleaning products if they were as effective as traditional ones. That led the company to introduce Green Works, a line of green cleaning products.

How do distinctive capabilities come in to the picture? First, Clorox was able to develop these products confidently, knowing that its brand would be trusted by the public; and unlike its other products, Clorox lists all the ingredients for Green Works products on the label. Second, it can rely on its distribution network to get these products into markets that haven't yet been exposed to the green-products option. Finally, Clorox's prominence has helped it get an unprecedented endorsement from the Sierra Club. In fact, the group's logo will appear on the Green Works label. A Sierra Club spokeswoman explained why: "We are supporting Green Works in hopes that more people will have access to these kinds of products, some of which aren't even available in the middle of the country." [23]

Consider how demand for energy-efficient buildings is driving growth in the US green-building products market. This market is projected to be worth between $30 billion to $40 billion by 2010.[24] CEMEX, for example, is developing distinctive capabilities that incorporate principles of sustainability. It figured out how to use "fly ash"—a byproduct of coal burned in power plants—in its mixture for concrete. The ash would normally end up in landfills. Instead, it contributes to a concrete that is more workable and stronger, and requires less water. That more sustainable product is being used in CEMEX's new US headquarters in Houston, which not coincidentally will also be the largest green building in the city, as certified by the US Green Building Council.[25]

A well-managed global supply chain can also be the source of a distinctive capability. Risk and cost management are key ingredients, but sustainability is increasingly important to the recipe. Hewlett Packard's supply chain is the largest in the high-technology industry, with more than $50 billion worth of value flowing from one end to the other. For several years, HP has been acting to raise environmental and social standards within its supply chain. In 2002, for example, the company released its Supplier Code of Conduct to its supply chain partners. In 2007, it audited more than 95 percent of its high-risk product materials, component and manufacturing supplier sites. In 2008, it continued its efforts by educating suppliers at many of its sites about standards—and taking corrective action as necessary.[26]

23 Ilana DeBare, "Clorox Introduces Green Line of Cleaning Products,"San Francisco Chronicle, January 14, 2008.

24 McGraw-Hill Construction Analytics, SmartMarket Trends Report 2008.

25 "CEMEX Goes Green for New U.S. Headquarters," Reuters, May 27, 2008.

26 See HP Global Citizenship Report: Priorities and Goals, http://www.hp.com/hpinfo/globalcitizenship/gcreport/intro/priorities.html, viewed July 17, 2008.

Performance Anatomy

The third building block of high performance requires company leaders to create and spread a particular group of mindsets throughout their organizations. What Accenture calls "performance anatomy" is the totality of these mindsets as they relate to strategy and execution, talent, IT, performance management and innovation.

One winning mindset concerns what we call "talent multiplication," and a focus on sustainability can certainly be a talent multiplier for companies that know how to emphasize their efforts. For example, clothing marketer Patagonia has always had a strong environmental and social mission. Nevertheless, its claim to have upward of 2,000 applicants for each opening is impressive and indicative of what many people are seeking in an employer. GE's Jeffrey Immelt has publicly stated the company's ability to recruit "has never been higher" and that GE's position on environmental issues has "helped recruiting immensely."[27]

Another of the five mindsets of performance anatomy is balancing strategy and execution or, to put it another way, managing for today and for tomorrow. Dow Chemical has setting targets for energy reduction, and working to meet those targets, since 1990. As such, it is involved in ongoing, short-term activities that require stellar execution. For the long term, it has mapped out goals through 2025 and has communicated these aspirations throughout the company so that employees do not lose sight of the goals. In addition, Dow plans to reduce energy intensity by a further 25 percent by 2015. This goal will "require game-changing innovations," according to Fred Moore, the leader of this effort at Dow. These sustainability efforts thus require a company-wide mindset of continuous renewal, another critical element of performance anatomy.[28]

Another leader-created mindset: having a "selective scorecard" at the ready. In other words, what are the most critical drivers of performance that everyone in the company should be able to pull up at a moment's notice? Sustainability is starting to show up on more and more of these scorecards. Novo Nordisk, the Denmark-based healthcare company focused on diabetes, has integrated metrics of their sustainability progress across their organization into a balanced scorecard.[29]

Collectively, the existence of these mindsets can be seen through the reaction that companies have had to the

27 Jeff Immelt said this at the Wall Street Journal ECO:nomics Conference in 2008.

28 See World Business Council for Sustainable Development, http://www.wbcsd.org/DocRoot/Pnx9vs4DbPIFNWRaF3wf/Dow-energy-efficiency-full.pdf, viewed July 17, 2008.

29 Mette Morsing and Donald Oswald, "Novo Nordisk A/S–Integrating Sustainability into Business Practice." See World Business Council for Sustainable Development, http://www.wbcsd.org/web/publications/case/Novo_Nordisk.pdf, viewed July 17, 2008. Source for quote as described in the case study: Corporate Stakeholder Relations' Strategic Plan 2004-05, March 2004, p 13.

sustainability challenge. Companies' efforts to attend to sustainability can be evaluated along a maturity continuum. (For a visual aid on this continuum, refer to Figure 3 below.) At the left side of the continuum resides a group of companies whose approach to sustainability can be best described as "defensive." These companies are either wholly ignoring sustainability by not taking action to address it or, at best, are taking attending solely to the low-hanging fruit of sustainability by disclosing their exposure to environmental and social risks to their suite of stakeholders. Compliant companies are going one step further–these companies are adhering to current and emerging regulation to ensure that they avoid regulatory fines and the related damage to their reputation that such fines could cause. At "managerial" companies, sustainability has become more than a cost of doing business–sustainability is now appearing on the corporate agenda. As a result, plans to attend to sustainability are being developed, primarily at the functional, business unit and geographic location level. Leading companies are coordinating their sustainability efforts, across their functions, units and locations, at the enterprise level. They are wholly transparent to the market–even if it means shedding light on the areas in which they need to improve. These companies see sustainability as an opportunity for growth; to capture this growth, these companies are reframing existing products and introducing new products to appeal to the sustainability-conscious consumer. Sustainable companies have gone one step further–they've redesigned their corporate vision to be based on sustainability and are actively re-engineering their processes and supply chains to eliminate energy, water and waste inefficiencies while adhering to the strictest ethical and moral standards possible.

The Burden of Responsibilty, the Scope of Opportunity

For business executives, the world just keeps getting more complicated.

Consumers used to buy products and be satisfied with them as long as they did what they were supposed to do and were sold at a fair-market price. Now they want to know: Where will this product end up when I'm done with it? Was it made by child labor? How much water was used (and wasted) during its production? And employees have similar questions: Are our employment practices the same all over the world? Are we using technology and energy as efficiently as possible? Do we know what are suppliers are really up to?

Consumers, employees, politicians, officials, judges—increasingly, they are all turning to the corporate sector for help solving today's social and economic problems. A GlobeScan survey reveals most people believe sustainable development leadership must come from corporations.[30] The same survey found that large global companies were also seen as a key player in improving the lives of people in poor countries.

Attending to sustainability is a significant challenge for many companies–the breadth, depth and pace of change can seem overwhelming. Using a execution lens to understand how ideas about value are changing is an important first step. Using a performance lens to apply that value framework to the building blocks of high performance is a necessary second step. By thinking of sustainability in terms of market focus and position, distinctive capabilities and performance anatomy, executives can start to shape their companies to accommodate this new business imperative, and to respond in ways that keep them ahead of slower-moving competitors.

Success is never final. True high performance in a sustainable world can only be attained by keeping focused on the triple bottom line. In such a world, companies out-perform their peers by providing economic, environmental and social benefits to all stakeholders.

30 GlobeScan (2005) Research Findings, Website accessed on 9 May, 2008, www.globescan.com.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people in 120 countries, the company generated net revenues of US$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is www.accenture.com.

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We help organizations achieve substantial improvement in their performance through integrated programs that maximize the positive and minimize the negative effects on social, environmental and economic issues and stakeholders. We see sustainability both as a commercial opportunity and as an extension of our stewardship role in supporting global business and societies. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes. Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights on sustainability issues based on our ongoing investments in research, including recent studies on consumer expectations and global executive opinion on climate change.

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