McKinsey Global Survey results

The business of sustainability

More companies are managing sustainability to improve processes, pursue growth, and add value to their companies rather than focusing on reputation alone.

Many companies are actively integrating sustainability principles into their businesses, according to a recent McKinsey survey,[1] 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,[2] 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. In a related opinion piece, "Putting it into practice," at the end of this survey, the authors argue that more businesses will have to take a long-term strategic view of the issue by identifying and pursuing sustainability opportunities that hold the highest value potential.

[1] 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.

[2] Defined as a combination of environmental, social, and governance issues also known as corporate social responsibility (CSR) or corporate responsibility.

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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 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,[3] 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[4] 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[5] is the second most cited reason, followed by alignment with the company's business goals, mission, or values[6] (31 percent) and new growth opportunities (27 percent), which climbed 10 percentage points since last year.

[3] 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.

[4] 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.

[5] In 2011, the answer choice was, "building, maintaining, or improving our corporate reputation"; in 2010, the answer choice was, "maintaining or improving corporate reputation."

[6] In 2010, the answer choice was, "alignment with company's business goals."

Exhibit 1

Moving beyond reputation

% of respondents,[1] n = 2,956	Company is currently taking action	Company is more effective than competitors
Reducing energy use in operations	63	47
Reducing waste from operations	61	44
Managing corporate reputation for sustainability	51	57
Responding to regulatory constraints or opportunities	46	50
Reducing emissions from operations	43	48
Managing portfolio to capture trends in sustainability	38	56
Reducing water use in operations	38	46
Committing R&D resources to sustainable products	31	59
Leveraging sustainability of existing products to reach new customers or markets	28	61
Managing impact of products throughout the value chain	28	50
Improving employee retention and/or motivation related to sustainability activities	26	48
Mitigating operational risk related to climate change	22	41
Achieving higher prices or greater market share from sustainable products	18	52

[1] Respondents who answered "don't know" or "none of the above" are not shown.

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 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' 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

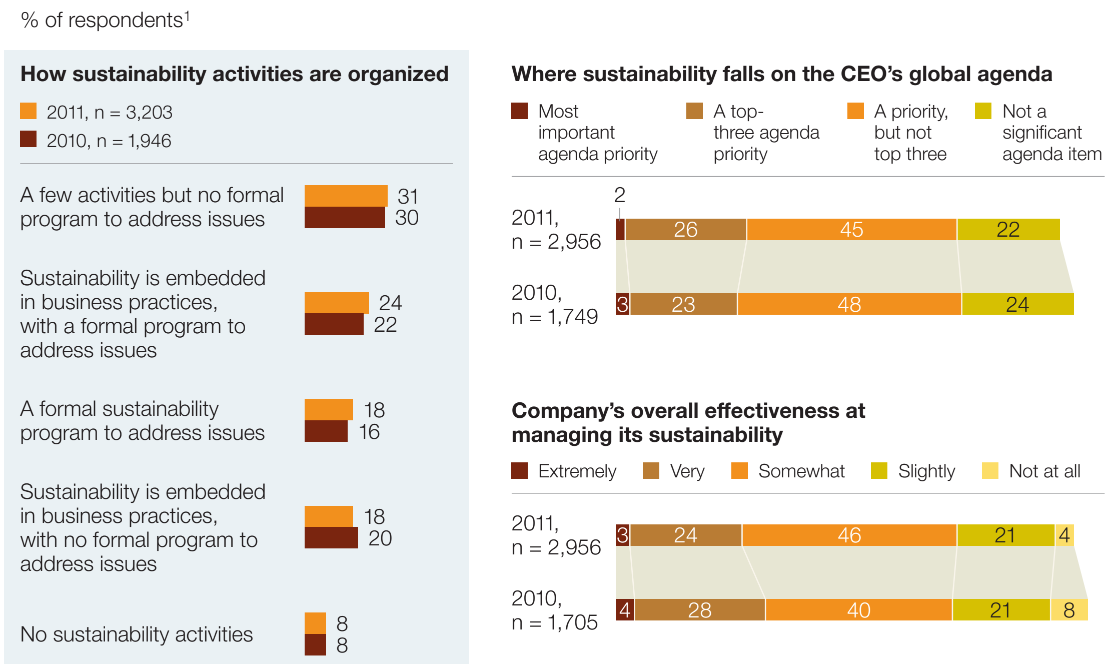
Exhibit 2

Widespread integration

% of respondents, n = 2,956

Exhibit 3

Little change across leadership criteria



[1] 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.

define a group of "sustainability leaders,"[7] 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[8] (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 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.

[7] 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.

[8] 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. To find out more about how companies can apply these levers, see "Putting it into practice," on page 12.

Exhibit 4

Leading with action

[1] Respondents who answered "don't know" or "none of the above" are not shown.

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 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).

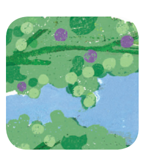
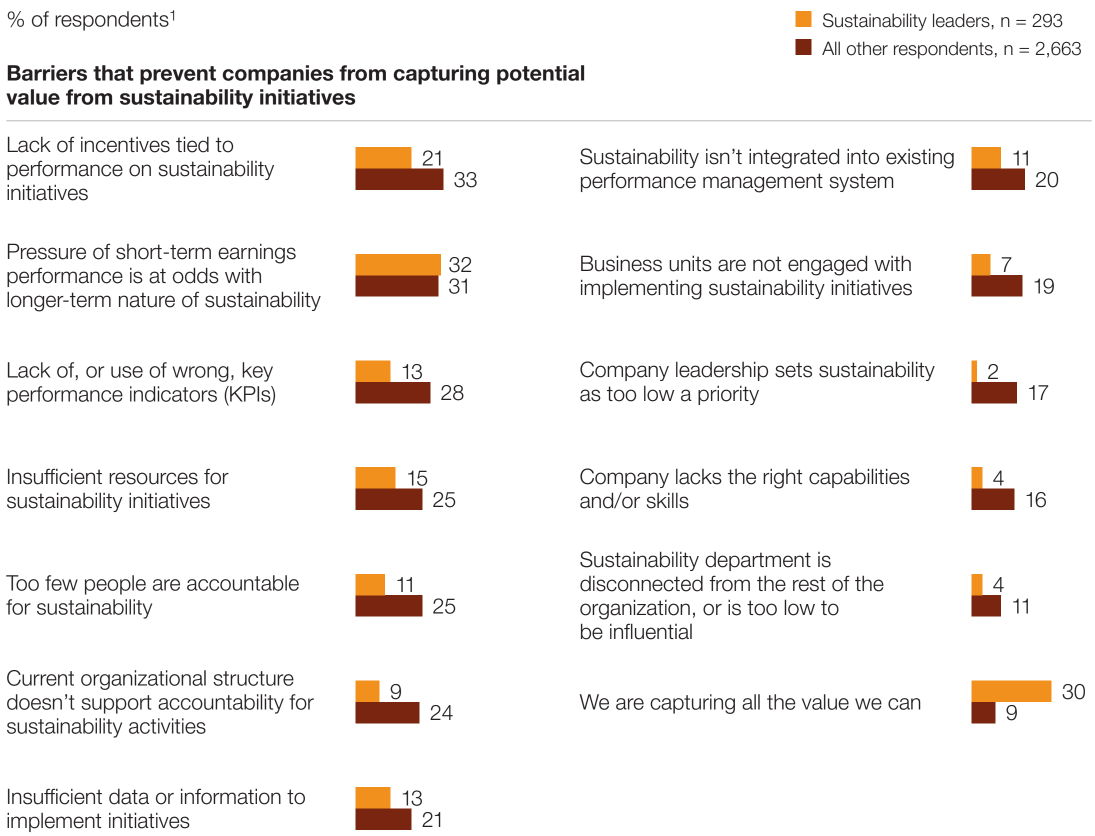


Exhibit 5

Fewer barriers for leaders



[1] Respondents who answered "don't know" or "other" are not shown.

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.[9] This finding suggests that the integration of sustainability extends far beyond business practices at these companies.

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

[9] 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.

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 (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.

Exhibit 6

Value varies by industry

% of respondents

Value-creation levers		Total, n = 3,203	**Industry,** top three most cited activities[1] with potential to create significant value over the next 5 years
Growth	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[2] (3), finance (2), high tech/telecom (1), manufacturing (2), retail (3), transportation (2)
Return on capital	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	
Risk management	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)

[1]Numbers 1, 2, and 3, in parentheses, indicate the first, second, and third most frequently chosen activities within each industry.
[2]This group includes respondents from the coal, metal, oil and gas extraction, petroleum and natural gas distribution, petroleum refining, and other mining subindustries.

Related thinking

"How companies manage sustainability: McKinsey Global Survey results"

"Building a sustainable Ford Motor Company: An interview with Bill Ford"

"Global forces shaping the future of business and society"

"Pricing the planet"

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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Continue on to the next page for a related opinion piece, "Putting it into practice," about why companies should act now on the sustainability opportunities that are crucial to their business.

Putting it into practice

Companies should integrate environmental, social, and governance issues into their business model—and act on them.

Sustainability has long been on the agenda at many companies, but for decades their environmental, social, and governance activities have been disconnected from core strategy. Most still take a fragmented, reactive approach—launching ad hoc initiatives to enhance their "green" credentials, to comply with regulations, or to deal with emergencies—rather than treating sustainability as an issue with a direct impact on business results.[1]

That's no longer enough. Material risks not only to a company's reputation but also to the bottom line come from many, often unpredictable directions in an era of constrained resources and tighter regulatory requirements, as well as growing demand for sustainable products and services, good corporate governance, and social responsibility. Where such challenges arise, opportunities also lie: McKinsey estimates that the clean-tech product market, for example, will reach $1.6 trillion by 2020, up from $670 billion in 2010. The World Resources Institute estimates that people at the bottom of the income pyramid, who earn less than $3,000 a year, embody a global market of more than $5 trillion.[2]

Our research finds that a handful of companies are capturing significant value by systematically pursuing the opportunities sustainability offers. We believe the trend is clear: more businesses will have to take a long-term strategic view of sustainability and build it into the key value creation levers that drive returns on capital, growth, and risk management (Exhibit 1), as well as the key organizational elements that support the levers. Each company's path to capturing value from sustainability will be unique, but these underlying elements can serve as a universal point from which to get started.

Approaching sustainability

Our survey produced insights into the specific practices of a small group of companies that treat sustainability holistically. At all of them, it is a top-tier item on the CEO's agenda, a formal program is in place to address it, and executives embed it in business practices and manage it actively. Much higher shares of respondents at these leading companies report that they are pursuing each kind of value-creating activity related to sustainability and integrating the organizational elements—mission and values, systems and processes, internal and external leadership, and organizational design—that support such initiatives.

The leading companies from our survey can thus serve as a model for others. Make no mistake, however: capturing sustainability's full value potential is complicated. In essence, a company must first determine its baseline performance on sustainability issues and then decide on a portfolio of initiatives to create value in those areas. But while many companies understand the impact of their own operations on issues from carbon emissions to human rights, they often have little or no understanding of the impact of the entire value chain.[3]

[1] According to McKinsey's 2011 survey on sustainability, just 36 percent of executives say their companies have a strategic approach to it, with a defined set of initiatives.

[2] Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, and Courtland Walker, *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*, World Resources Institute, March 2007.

[3] Seventy-eight percent of respondents at leading companies say they have mostly or completely integrated sustainability into the management of their supply chains; 37 percent of all other respondents say their companies have done so.

Moreover, most companies do not actively seek opportunities to invest in any area of sustainability[4] and therefore miss potential growth opportunities.

Opportunities to create or preserve the most value vary greatly among industries (Exhibit 2). An extractive-services company,[5] for example, could significantly reduce its costs through better management of energy and water. A retail company could reduce its resource intensity and costs by revamping its supply chain, since the biggest environmental impact within that sector can often be traced to raw materials, such as the agricultural products used in food or apparel. An energy company may have more opportunities than companies in other industries to create value through new products—for example, by commercializing investments in smart grids.

[4] According to McKinsey's 2010 survey on sustainability, 88 percent of respondents at leading companies strongly agree that they actively seek opportunities to invest in sustainability, versus 23 percent of all other respondents. For more, see "How companies manage sustainability: McKinsey Global Survey results," mckinseyquarterly.com, March 2010.

[5] This group includes survey respondents from the coal, metal, and other mining industries; oil and gas extraction; petroleum and natural-gas distribution; and petroleum refining.

Creating value

Integrating sustainability into strategic initiatives is especially important because these issues play out over the long term. It's easier for companies where they are core concerns to understand trends and make strategic bets in advance of consumer preferences, stakeholder

Exhibit 1

Capturing value in three key areas

Exhibit 2

Industry-specific opportunities

Potential value from sustainability activities over the next 5 years, by industry

Significant value | Modest value | Little to no value

	Energy	Extractive industries[1]	High tech, telecom	Retail
Growth	Significant value	Modest value	Significant value	Modest value
Composition of business portfolio	Significant value	Significant value	Significant value	Modest value
Innovation and new products	Significant value	Modest value	Significant value	Modest value
New markets	Modest value	Modest value	Modest value	Modest value
Returns on capital	Modest value	Modest value	Modest value	Significant value
Green sales and marketing	Modest value	Little to no value	Modest value	Little to no value
Sustainable value chains	Modest value	Modest value	Modest value	Significant value
Sustainable operations	Modest value	Significant value	Modest value	Significant value
Risk management	Modest value	Significant value	Modest value	Modest value
Operational-risk management	Little to no value	Little to no value	Little to no value	Little to no value
Reputation management	Significant value	Significant value	Significant value	Significant value
Regulatory management	Significant value	Significant value	Modest value	Little to no value

[1] Includes respondents from the coal, metal, and other mining industries; oil and gas extraction; petroleum and natural-gas distribution; and petroleum refining.

Source: 2011 McKinsey sustainability survey; McKinsey analysis

pressure, or regulation. GE, for example, placed early bets on climate change: in 2004, before Al Gore and Hurricane Katrina made this a top-of-mind issue, the company resolved to double its research investments and sales in clean technology. It also promised to "green" its own operations. As a result, GE's Ecomagination division has been a tremendous growth engine, with product sales reaching $18 billion in 2009. Other companies too have found instructive ways to build sustainability into drivers of value.

Returns on capital

Most companies creating value through sustainability look first to improving returns on capital, which often means reducing operating costs through improved natural-resource management (such as energy use and waste). Dow Chemical, for example, reported that it invested less than $2 billion since 1994 to improve its resource efficiency. To date the company has saved more than $9.8 billion from reduced energy consumption and water waste in its manufacturing processes, even as it continues to develop innovations. In 1996, through a separate initiative, Dow also created a set of goals for environmental, health, and safety issues, and it has ensured their integration into the company's processes by tracking progress with clear metrics. As a result Dow, with a 20 percent reduction in absolute greenhouse gas emissions, has gone well beyond Kyoto Protocol[6] targets.[7]

Companies are also driving down costs by systematically managing their value chains. Wal-Mart, for example, expects to generate $12 billion in global supply chain savings by 2013 through a packaging "scorecard" that could reduce packaging across the company's global supply chain by 5 percent from 2006 levels. Moreover, companies can add value by improving employee retention or motivation through sustainability activities or by raising prices or achieving higher market share with new or existing sustainable products. Whole Foods Market, for instance, raised its sales by 13 percent a year from 2005 to 2009, in an economy experiencing single-digit growth.

Growth

Companies that rigorously pursue sustainability also regularly revisit their business portfolios to determine the potential impact of trends (such as existing or potential climate change regulations) that could lead to new growth opportunities. Waste Management, for instance, reinvented itself as a provider of integrated environmental offerings by adding waste reduction and waste-to-energy solutions to its services. Companies also screen rigorously for unmet needs created by sustainability trends in line with their strategies and identify potential customer segments. ArcelorMittal, for example, embedded sustainability in its organizational design through a department for scientific analyses of the life cycles of steel products. The department creates offerings that minimize steel's negative environmental impacts—one result of the company's investment in innovative solutions. GlaxoSmithKline is looking not only to philanthropy but also to its business model in addressing diseases in less-developed markets. By adopting a range of flexible pricing models for patented medicines and vaccines so that they're affordable for customers in those countries—yet still profitable—the company hopes to garner a significant share of sales in potential new markets.

Risk management

Better management of risks that arise from sustainability issues begins with detecting key risks of operational disruptions from climate change, resource scarcity, or community issues (such as boycotts or delays in getting permits for manufacturing). Faced with potential supply constraints, Nestlé, for example, launched a plan in 2009 that coordinates activities to promote sustainable cocoa: producing 12 million stronger and more productive plants over the next ten years, teaching local farmers efficient and sustainable methods, purchasing beans from farms that use sustainable practices, and working with organizations to help tackle issues like child

[6] *Kyoto protocol to the United Nations Framework Convention on Climate Change*, United Nations, 1998.

[7] *Mid-point Report: 2015 Sustainability Goals Update, 4Q 2010*, Dow Chemical, February 2011.

Related thinking

"The business of sustainability: McKinsey Global Survey results"

"The business opportunity in water conservation"

labor and poor access to health care and education. The mining giant BHP Billiton managed its exposure to emerging regulations by systematically reducing its emissions.

The choice for companies today is not if, but *how*, they should manage their sustainability activities. Companies can choose to see this agenda as a necessary evil—a matter of compliance or a risk to be managed while they get on with the business of business—or they can think of it as a novel way to open up new business opportunities while creating value for society. □

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