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Driving Value from Integrated Sustainability

High Performance Lessons from the Leaders

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Accenture's commitment to sustainability is reflected not only in our efforts to embed environmentally and socially responsible business practices across our global organization, but also in our work with clients looking to build a sustainable future.

Through our hands-on experience and our insights into the challenges and opportunities that sustainability presents, we believe sustainability is fast becoming a key contributor to high performance.

The Sustainability Services group at Accenture recently teamed up with the Accenture Institute for High Performance to analyze performance data of 275 global *Fortune* 1000 companies and examine the quantitative and qualitative effects of sustainability strategies and initiatives on business success. The goal of this research was to:

- Identify sustainability leaders
- Better understand the actions they have taken to integrate sustainability across their operations
- Draw conclusions that can help other organizations derive optimal value from an integrated approach to sustainability

This research report provides tangible lessons of how leaders are managing the complexity that prevents many of their peers from gaining traction in the area of sustainability. These lessons—valuable in their own right—have influenced the development of the Accenture Sustainability Framework, which helps companies in various industries integrate sustainability across their organizations and accelerate the delivery of sustainable and long-lasting value.

Driving value from sustainability

We have found that companies that adopt sustainable business strategies and practices drive value by:

- Growing revenue through new products and services
- Reducing costs through efficiency gains
- Managing operational and regulatory risk more effectively
- Building intangible assets such as their brand, reputation and collaborative networks

Understanding the value of sustainability

Over the past several years, sustainability has moved from the periphery to the very heart of business and the public sector. As this shift has occurred, we've seen organizations around the world both preserve and create value by integrating sustainability into their business strategies and operating models.[1] Further, we have found that the capabilities organizations develop to master sustainability are the same fundamental capabilities organizations develop to pursue high performance.[2]

Recently, Accenture's Sustainability Services group, in conjunction with the Accenture Institute for High Performance, launched a research initiative[3] to better understand what sustainability leaders are doing to generate value for their stakeholders.

When we looked at the business performance and sustainability performance data of 275 global *Fortune* 1000 companies (half of which had previously been identified by Accenture research as high-performance businesses), we found that the 50 companies ranked highest in sustainability leadership also outperformed their peers in terms of shareholder returns. Specifically, the 50 sustainability leaders:

- Outperformed the bottom-performing 50 companies in three-year total return to shareholders by 16 percentage points. They outperformed the middle group of 50 average sustainability peers by 6 percentage points. It is important to point out all companies experienced a significant decline in shareholder returns during the past three years. However, the declines in returns for the sustainability leaders were markedly less pronounced.
- Outperformed their bottom and middle 50 peers in five-year shareholder returns by an even more impressive margin—38 and 21 percentage points, respectively (see Figure 1).

The finding that companies performing better in sustainability tend to perform better in shareholder returns confirms recent Accenture and industry findings[4], which have shown that focusing on sustainability has, at a minimum, no negative effect on a company's financial performance.

Introducing the sustainability leaders

A primary goal of our research was to provide actionable lessons based on the experiences of companies not only excelling in sustainability, but also outperforming their peers financially. From the top 15 percent of sustainability leaders in our global sample of 275 companies, we selected five companies from various industries for closer scrutiny. Four of these companies had previously been identified by Accenture research as high-performance businesses. The five companies included in this qualitative analysis were:

- Diageo
- Hewlett-Packard
- Iberdrola
- Johnson Controls
- J.P. Morgan

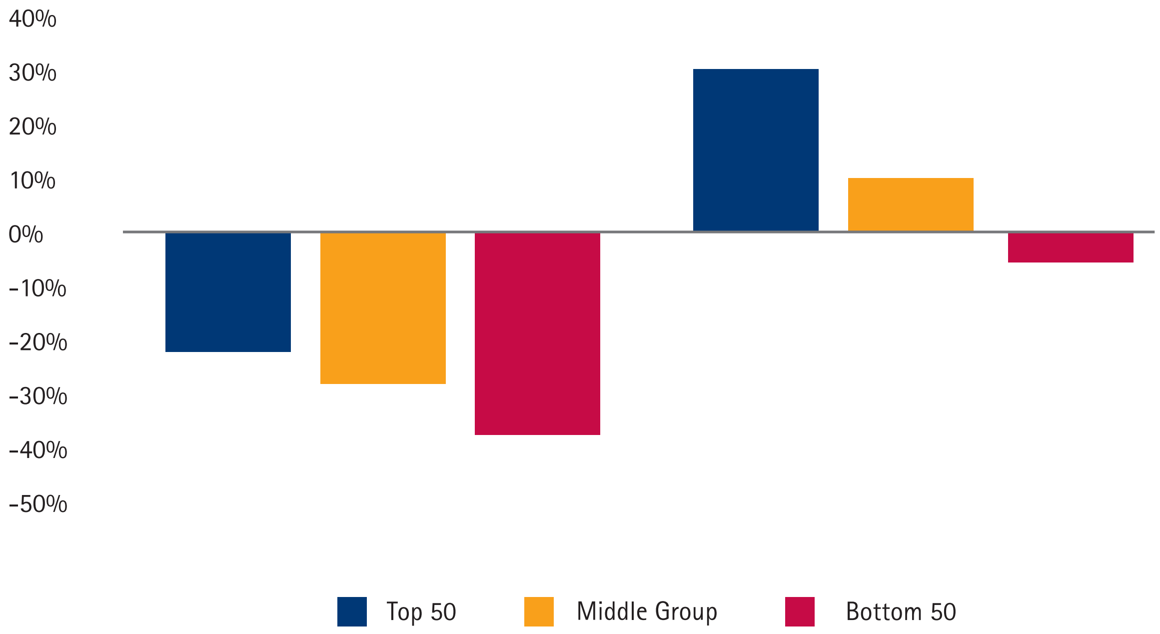
Through in-depth interviews with up to 25 executives within each company, we gained insights into how these leaders developed, executed and benefited from an integrated approach to sustainability and—in the process—distinguished themselves from their peers.

What quickly became apparent was the absence of a single path to becoming sustainable. Similarly, there was not a single approach to sustainability that guaranteed optimal results. The leaders we studied implemented a range of sustainability initiatives that spanned their organizations.

Despite the different tactics they employed, the leaders we studied all exhibited a strategic and embedded mindset through which they decoded the complexity that often surrounds the issue of sustainability. They employed an organized and systemic approach to implementation. And they didn't shy away from the difficult decisions and trade-offs that must often be weighed when determining which initiatives to pursue. As a result, their sustainablility initiatives produced real and tangible value.

Figure 1. The 50 sustainability leaders identified by Accenture's research significantly outperformed their peers in terms of financial returns

Three- and five-year total return to shareholders by sustainability leadership



In search of high performance

Since 2003, Accenture's renowned High Performance Business research program has provided insights into the characteristics that enable certain organizations to outperform their peers in five dimensions Accenture associates with high performance:

- Growth, as measured by revenue expansion.
- Profitability, as measured by the spread between the return on capital and the cost of capital.
- Positioning for the future, as represented by the portion of share price that cannot be explained by current earnings (what we call "future value") and by the portion of the industry total each company's future value represents.
- Longevity, as measured by the duration of out-performance in total return to shareholders.
- Consistency, as measured by the number of years out of seven the peer set median in profitability, growth and positioning for the future was beaten.

The results show that high performance is definable, quantifiable—and achievable. To date, we have analyzed more than 6,000 companies and identified more than 500 of them as high performers.

Setting the stage for high performance

Accenture assesses high performance by looking at a company's quantitative superiority along five key dimensions: growth, profitability, positioning for the future, longevity and consistency. As it turns out, the five leaders profiled in our research are producing sustainable business outcomes that map directly to these dimensions.[5]

In most cases, this alignment has been unintentional. Rather than focusing on achieving high performance, per se, the sustainability leaders tended to implement programs that addressed four prominent value drivers: growth, cost reduction, better risk management and enhanced reputation. The fact that these companies' attention to the four value drivers also strengthened their standing as high-performance businesses suggests a considerable overlap between sustainability and high performance. It also supports Accenture's long-standing belief that sustainability and high performance are compatible aims.[6]

Growth

The leaders in our analysis took advantage of opportunities to tailor new products and services to meet the needs and preferences of their environmentally conscious consumers. In the process, they achieved revenue growth, an outcome that is both a marker of high performance and sustainability success. For example:

- Hewlett-Packard introduced a line of energy-efficient PCs and notebooks and entered into an innovative solar-technology licensing agreement with Xtreme Energetics to promote a revolutionary transparent transistor technology that will enable the generation of electricity at twice the efficiency and half the cost of traditional solar panels.
- Finance giant J.P. Morgan launched a Social Sector Finance unit to support microfinance and social enterprise organizations, entered the business of carbon-credit trading, and made sizeable investments in renewable energies as a way to build capital support for future projects.
- Spain-based utilities firm Iberdrola created Iberdrola Renewables, a separate company focused on developing alternative energies, as well as energy and asset management solutions. The company is also using sustainability to guide its acquisition of like-minded firms with assets that complement its unique portfolio. Scottish Power, which Iberdrola purchased in 2007, is but one example.

Profitability

In our work with clients around the world, we have seen, first-hand, the dramatic effect that sustainability can have on an organization's bottom line. The actions of the leaders identified in our research clearly supports our belief that a focus on sustainability can yield cost savings that translate into higher margins.

There are many ways to achieve cost reductions via sustainability. One path involves moving toward "Green IT." Hewlett-Packard's decision to consolidate 85 of its data centers into just six high-efficiency locations in the United States has netted yearly energy savings of up to 350 million kilowatt hours—and energy cost savings of up to $30 million. Less expensive and relatively simple changes to supply chain or production processes can also produce dramatic results. For example:

- By increasing its use of recyclable plastic pallets—which weigh less than a quarter of the wooden pallets previously used for transporting products—Hewlett-Packard is eliminating 7,000 tons of carbon dioxide emissions each year. The higher original costs of the plastic pallets are significantly outweighed by savings in freight charges.
- Diageo historically used stainless steel kegs to transport beer between Ireland, Europe and the United States. By switching to recyclable plastic kegs—which are 27 times lighter than the conventional stainless steel varieties—the company reduced the energy needed to transport those kegs by 27 times.
- By increasing the amount of recycled lead used in the production of the batteries it supplies to the automobile industry, Johnson Controls saved approximately $500 per ton of lead used.

Positioning for the future

At Accenture, we believe sustainability will play an ever more important role in the lives of consumers—and the livelihoods of companies that serve them. The five leaders we studied are all using sustainability to help them take advantage of future growth opportunities.

- Iberdrola, for its part, is increasing profitability by incrementally shifting its total energy production structure toward cleaner technologies. From 2006 to 2007, net sales on renewables increased 37 percent, from €695 million to €953 million. Iberdrola anticipates even higher profitability from renewables in the future. Iberdrola has further strengthened its role as a leading player in the European utilities market by positioning itself as a partner committed to working with government agencies to shape the emerging regulatory environment.
- Diageo proactively pursues community development partnerships and positions itself as a company deeply committed to responsible drinking. This stance confronts the company's business risks head-on, promotes goodwill, limits unwarranted regulatory intervention and preserves its reputation for the foreseeable future. Diageo also ensures its ongoing success through product innovation and a steady and continual monitoring of consumer trends to ensure that its sustainability initiatives and offerings align to market demands and preferences.
- Hewlett-Packard continually examines the design and operations of its data centers for additional ways to achieve efficiencies. That continuous improvement process—along with the innovations it sparks—has created a large growth opportunity for services (such as enterprise data center energy assessments) and products (such as photonic connections that eliminate the need for heat-producing, resource-intensive copper cabling in data centers and, at the same time, improve processing speeds and lower bandwidth costs).

Longevity

The five sustainability leaders all leveraged sustainability as a means to ensure their longevity. Partnerships were important mechanisms by which all of our sustainability leaders sought to build on the momentum of existing initiatives.

Diageo and **J.P. Morgan** focus on nurturing relationships with other organizations that can provide insights that, in turn, help keep the organizations' programs on track. Diageo, for example, worked with the United Nations Global Compact—the world's largest self-governing corporate citizenship initiative—to help develop a policy for sustainability.

Governance

Just as sustainability initiatives must be aligned to corporate objectives, the governance of those initiatives must be structured in a way that makes the most sense for a given business environment.

In businesses with centralized organizational structures, for example, the involvement of the chief executive officer is likely to be critical for setting a vision for sustainability and driving results. In decentralized organizations where responsibilities are regularly delegated, it may be more appropriate for the management of sustainability programs to fall to an individual (e.g., chief sustainability officer) dedicated to implementing programs, coordinating business units and acting as a catalyst for change on behalf of the leadership team.

Governance structures may incorporate other groups or individuals such as board members, external stakeholders, employee-based sustainability councils and non-governmental organizations to lend support and guidance. Even more important, however, is the involvement and support of the board's executive committee, whose members are best positioned to ensure that an integrated approach to sustainability is effectively embedded and managed across the organization.

Regardless of the form that the governance structure takes, three elements are essential: a strong change management orientation, a solid understanding of how sustainability can support business objectives, and a formal process to expedite sustainability-related decisions.

The resulting policy adheres to the various UN principles on environmental responsibility, human rights and corruption. J.P. Morgan teamed with Citigroup and Morgan Stanley to develop—in consultation with power companies and environmental non-governmental organizations—the "Carbon Principles." These guidelines help all parties, including J.P. Morgan, understand and manage the carbon-emission risks associated with the financing and construction of power plants.

Hewlett-Packard extends the partnership model to its supplier base, encouraging its suppliers to adopt principles of environmental sustainability and fair labor practices. A team of 70 auditors now regularly inspects 200 factories owned by 150 of the company's key suppliers. These suppliers have benefited from Hewlett-Packard's vigilance. Most notably, they have experienced lower employee and customer attrition rates and are attracting better job applicants because of improved working conditions.

Iberdrola embraces partnerships, as well. The energy giant actively participates in public policy creation by collaborating with non-governmental organizations such as the World Wildlife Fund (policy development on issues related to electric cars) and Friends of the Earth (policy development related to carbon storage/capture and nuclear energy). Neither of these organizations is a natural collaborator with an energy firm. Yet Iberdrola's public commitment to sustainability and its credibility in the space helps create a platform for constructive dialogue. As Gordon McGregor, director for energy and environment at Scottish Power put it, "There's no monopoly on wisdom in the sustainability area."

In addition to establishing partnerships, all of the sustainability leaders in our research noted the importance of creating a culture that stretches across and beyond the workforce. Employees increasingly want to work for organizations they feel are improving the world's social, economic and environmental condition. The strength of a company's sustainability programs can be an important lever for attracting and retaining top talent. So can opportunities to engage employees in meaningful ways. Hewlett-Packard, for example, actively encourages ideas on sustainability from employees at all levels. Related to this is the role of company-supported volunteer opportunities for workers—something Diageo and J.P. Morgan strongly advocate.

Long-term business success is also dependent, to a large degree, on how well a company manages its image in the marketplace. Today, a company's commitment to sustainability influences brand loyalty among consumers, as well as how the company is perceived by shareholders, investors and regulators. For that reason, reputation enhancement is often cited as a key value driver for launching sustainability programs in the first place.

For **Johnson Controls** and **Hewlett-Packard**, their efforts to build a "green" reputation produced more immediate, bottom-line benefits in the form of new customer wins.

For **Diageo**, investments in sustainability will take years to generate economic returns. The company realizes that until those returns materialize, an improved environmental image is critical. To enhance its image as a sustainable company in the interim, Diageo has shared its rum distillation cleansing technology with a competitor. This act of goodwill—and image-building—helped the company earn a license to establish operations in St. Croix, West Indies. In short, Diageo is demonstrating that building brand capital today provides a short- and medium-term benefit until its sustainability initiatives pay off financially in the future.

Building a reputation as a sustainable business calls for strong brand management, as well as a public commitment to improve social and environmental conditions. It is important to point out that all of the leaders identified in our research renewed their commitment to sustainability, despite the economic downturn that had firmly taken hold during our period of analysis. In fact, nearly 75 percent of the top 50 sustainability leaders indicated their intention of setting and/or keeping their medium- and long-term carbon reduction goals. None of the bottom 50 companies made that claim. The leaders' unwavering efforts to improve the environment will be remembered by stakeholders long after the current downturn passes.

Consistency

It is one thing to outperform the competition in the short term. It is quite another to consistently outperform over a number of years. A focus on sustainability gives forward-thinking organizations an edge and enables them to pursue new opportunities that keep them at the top of their game.

Governance plays a big role in helping the sustainability leaders we identified maintain consistent performance against environmental—and, by extension, financial—outcomes.

Johnson Controls has one of the most robust governance structures of any company profiled in our research. Its Global Environmental Sustainability Council, which reports to the company's executive operating team, brings together representatives from all three of Johnson Controls' business units to fluidly manage sustainability efforts across the organization. The council is supported by four subcommittees, each focused on managing performance and outcomes in key areas, including environmental responsibility, product design, compliance and public affairs.

For **Iberdrola**, environmental policy and performance targets are set centrally and cascaded through the organization.

Diageo has several working groups focused specifically on furthering the company's sustainability agenda, as well as a number of local groups charged with overseeing site-specific initiatives. As these companies demonstrate, strong governance practices and structures are essential to identifying, prioritizing and implementing the sustainability initiatives that will produce consistent and predictable returns.

Effectively managing risk—and mitigating it whenever possible—is also an important way to achieve consistency. All of the leaders identified in our research used sustainability as an avenue to reduce or manage risks to their operations. Engaging with non-governmental organizations and other key stakeholders was a particularly effective means of gaining a fresh perspective and learning, first-hand, about the issues that might affect their continued growth.

A framework for action

Lessons from the five sustainability leaders provide insights into how other organizations might move from creating a strategy for sustainability to achieving sustainability maturity in the coming years. Accenture believes the future winners will share several key characteristics. Namely, they will:

- Craft a powerful and actionable strategy for sustainability
- Implement an integrated and accelerated approach to executing that strategy
- Build capabilities to ensure that a long-term focus and commitment to sustainability permeates the entire organization

To help organizations develop these characteristics and integrate sustainability into the core fabric of their operations, Accenture has created the Accenture Sustainability Framework (see Figure 2). This framework draws on the lessons from the sustainability leaders profiled in this report, as well as the insights we've gleaned from our years of helping organizations strengthen their capabilities. It is not intended to suggest specific actions or tactics such as those highlighted in the previous sections, but rather to provide a roadmap for creating an organized approach to sustainability.

Formulating a strategy for sustainability

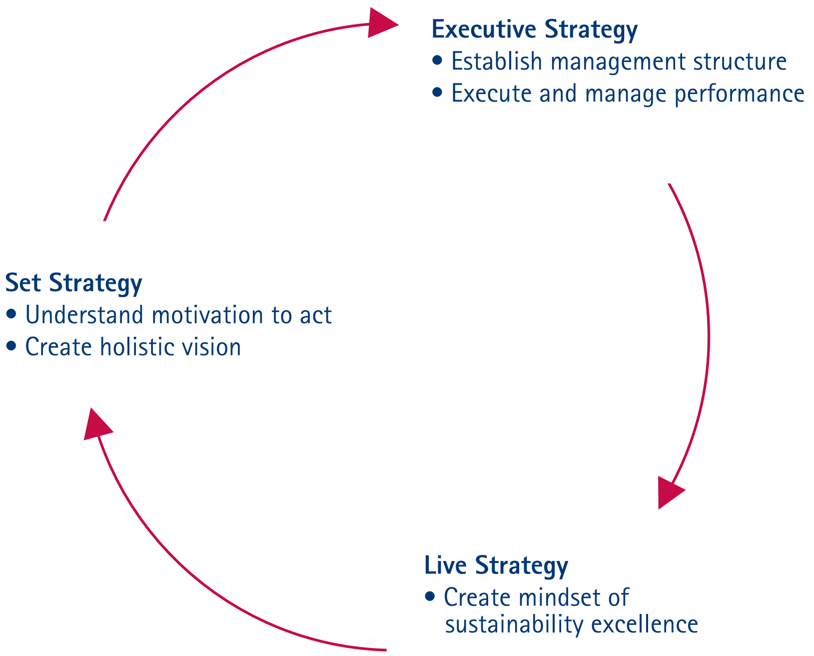
The first steps in building or enhancing a robust approach to sustainability involve establishing a strategy that describes what an organization wants to do and outlines an action plan that will bring that vision to life. Importantly, the strategy also identifies gaps in existing sustainability capabilities.

Understanding motivations for action

At the earliest stages of sustainability strategy formation, it is critical that organizations understand their motivations for entering the sustainability arena in the first place. What is the primary catalyst that is prompting action? Is it the need to meet compliance standards? Is it the desire to win greater market share? Is it to cut costs? Is it to build brand image and reputation?

For Johnson Controls, the main driver was consumer demand. While the company had embraced sustainability decades ago, the primary impetus for game-changing action emerged as recently as 2006. As energy prices soared, companies were increasingly attracted to energy-saving investments. Johnson Controls capitalized on this emerging market demand by

Figure 2. The Accenture Sustainability Framework



moving boldly and quickly into the fledgling “green building” area. It refined its vision to focus on creating a comfortable, safe and sustainable world. It added sustainability to its set of core values. And it embraced sustainability as a core path for continued growth—despite the fact that the company’s market value had grown by 200 percent over the previous six years. With a commitment to sustainability embedded in its new vision, Johnson Controls was clear and unambiguous about its priorities: environmental stewardship; good corporate citizenship; and sustainable products and services.

Of course, the impetus for a move toward sustainability differs from industry to industry, as does the set of issues that must be addressed. Sustainable business strategies and programs must be created and nurtured within the context of global forces and industry drivers that uniquely impact a given organization. Sustainability leaders of the future will be those organizations that are not only keenly aware of the issues and risks they face today, but also place the right bets on the challenges that will emerge in the coming years. By understanding the trends that matter most (some of which are outlined in Figure 3), these companies will be better prepared to articulate their strategic options and shape the right business model.

Setting an effective strategy for sustainability calls for:

- A holistic vision that guides a prioritized course of action
- A sustainability “market-maker” mentality with clear understanding of the end customer
- An appreciation of organizational heritage
- Leadership that drives sustainability through the organization

Creating a holistic, long-term vision

To achieve high performance in the short term, companies must understand their existing risks, competencies and opportunities across their supply and value chains. They must consider strategic options and develop new competencies to move from strategy to execution. Equally important, however, is the articulation of a holistic, long-term vision for sustainability. Diageo, for example, recognized its broad sustainability issues falling into three areas: economic, social and environmental. Within each area, the company determined priorities based on business risk, stakeholder concerns, community needs and, most importantly, the company's values and strategy. The result is an integrated strategy for sustainability that is embedded in the organization and guided by clear priorities.

When Accenture was called upon to help a national postal service identify and define new areas of growth, we looked at sustainability as one of the potential drivers. Doing so allowed us to spot significant opportunities to generate new profit in the mail, parcel and recycling markets. We also discovered opportunities to minimize emissions reduction costs and develop a profitable carbon-trading capability. In another case, we helped a multinational network utility embed a scenario-planning approach within its business. This effort was designed to help the company identify and manage strategic uncertainties—including environmental effects and requirements, changing consumer behaviors and the shifting availability of resources—that would affect the business over the next 10 to 20 years.

In short, sustainability leaders rarely invest in one-off initiatives. Rather, they look for opportunities across their organizations and then adopt an organized approach to building integrated programs that not only address challenges and drivers today, but also position them for competitive advantage in the future. Such long-term thinking is increasingly evident. It's what led Sharp to invest more than $4 billion in a factory that will enable it to become the world's largest maker of next-generation solar panels. The company sees its ability to manufacture high-tech panels as critical to its growth in a market that, by some accounts, will increase to $1 trillion by 2040. Sharp wants to capture as much of that business as it can, and is investing today to position itself for the future.[7]

Sustainability leaders rarely invest in one-off initiatives. Rather, they look for opportunities across their organizations and then adopt an organized approach to building integrated programs that not only address challenges and drivers today, but also position them for competitive advantage in the future.

Figure 3. Sustainability-related issues and trends likely to affect select industries in the coming years

Industry	Key industry issues to be addressed by an effective sustainability strategy
Utilities	• Emerging smart grid technologies will allow consumers to better manage their consumption of electricity by, among other things, shifting the brunt of energy usage to non-peak hours. As a result, consumers will be charged less and utilities companies will generate less revenue. • Carbon-trading permits will potentially provide utility companies with an ancillary revenue stream. • The emergence of small-scale technologies, which is predicted to drive greater distribution of power generation, will call for more complex business models. • Utilities will be increasingly judged by their ability to achieve carbon efficiencies. • Renewable energy sources will be critical components of strategies to not only reduce emissions, but also achieve industry and government targets.
Retail	• Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to retail companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers.
Telecommunications	• Telecommunications will need to integrate alternative energy sources as primary energy sources. • Product differentiation will be increasingly based on lower total cost of ownership.
High-tech	• Opportunities for growth will arise in servicing the low-carbon economy with solutions such as smart grids. • High-tech companies will face increasing demand for tools that help users measure, manage and improve their energy/carbon efficiencies. • Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to high-tech companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers. • High-tech companies will face increasing upstream supply chain risks in areas related to water conservation, agricultural commodities and chemicals.
Financial Services	• Carbon trading and other emerging environmental trading opportunities are emerging. • Significant funding will be required by other industries looking to take advantage of carbon reduction opportunities.
Consumer Goods	• In an era of increased carbon regulation, consumer goods companies will face pressure to lower their carbon footprints, and also refine their packaging, labeling and pricing practices. • Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to high-tech companies. • Consumer goods companies will need to educate consumers on the benefits of sustainable products.
Automotive	• Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to automotive companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers. • Manufacturers will face greater regulations and tougher vehicle emissions standards. • Automotive companies will face increasing upstream supply chain risks in areas related to water conservation, agricultural commodities and chemicals. • Fuel efficiencies will reduce consumers' total cost of ownership and become a competitive advantage for manufacturers.
Energy	• Carbon-trading permits will potentially provide energy companies with an ancillary revenue stream. • Energy companies will need to accelerate the transition from fossil fuels to alternative sources of power. • Carbon expenses are likely to be significant. • Emerging environmental regulations and greater public scrutiny will place even more pressure on energy companies to adopt sustainable business practices. • Carbon efficiency will become a key competitive differentiator.
Metals & Mining	• Companies in the metals and mining industry will face more stringent regulations and greater scrutiny of direct environmental impact. • Carbon efficiency will become a key competitive differentiator. • Governments and lenders will look more closely at a company's environmental performance when granting extraction rights.

Figure 4. Diageo, Hewlett-Packard, Iberdrola, Johnson Controls and J.P. Morgan executed a number of specific sustainability initiatives that aligned to the four value levers

Value category	Initiative
Revenue growth	• Charge premium prices for sustainable products and services. • Develop new products and services to meet the emerging sustainability demands of consumers and other stakeholders. • Bundle services to encourage up-selling and drive additional sales. • Adjust business-to-business sales tactics to target a new category of buyer—namely, chief sustainability officers, chief environmental officers and heads of corporate responsibility programs. • Equip the workforce with training and incentives to effectively market and sell sustainability products and services.
Cost reduction	• Develop and implement a Green IT strategy. • Minimize business travel by replacing face-to-face meetings with telepresence sessions. • Reduce waste generated at facilities. • Increase amount of recycled material used in making products. • Take action to lower carbon footprint.
More effective risk management	• Involve consumers, non-governmental organizations and other external stakeholders in sustainability strategy development. • Foster intra-industry partnerships to shape or set compliance standards. • Work with government agencies to influence environmental policy development. • Earn the support of institutional investors to stabilize stock price. • Embed sustainability in product design processes to avoid costly retrofits.
Brand enhancement	• Share access to leading environmental technologies with competitors. • Build or renovate facilities to meet Leadership in Energy and Environmental Design (a green building rating system) certification standards. • Engage in public policy initiatives. • Develop communications strategies to highlight sustainability initiatives. • Use sustainability strategy to attract, engage and retain top talent.

Executing a strategy for sustainability

The second stage of the Accenture Sustainability Framework focuses on effectively delivering an integrated program. As our five leaders demonstrated, there are many ways to generate value from sustainability initiatives. Regardless of the path selected, the ability to prioritize the specific initiatives is crucial. At Accenture, we have seen organizations fall behind their competitors in the area of sustainability because they simply did not know what to tackle first. In many instances, inaction is rooted in a lack of understanding of the drivers for sustainability. Companies that fail to recognize the importance of, say, cost reduction as a driver may forego opportunities to achieve significant bottom-line results in favor of other initiatives that do little to encourage better business performance.

Prioritizing initiatives

By prioritizing the drivers first, companies are in a much better position to focus on specific initiatives that produce meaningful results. Figure 4 highlights just a few of the prioritized initiatives that sustainability leaders carried out to drive value. When modified to address industry-specific drivers, they may be useful to other organizations looking to achieve sustainability excellence.

Managing for long-term success

Making sure the right structure is in place for the successful implementation of sustainability initiatives is also critically important. This involves looking at the organization as a portfolio of capabilities that can all be honed to contribute to successful and sustainable business outcomes. It also means taking a dynamic view of the enterprise to understand how these capabilities connect. Focusing on the interactions, rather than isolated activities or silo organizations, sheds light on the flexibility that an integrated approach to sustainability requires.

When Accenture was brought in to help government agencies in the State of Florida address the potential effects of climate change, we applied such a cross-organizational approach. By looking at various linkages between the state's supply chain, sourcing, product labeling, data analysis and reporting capabilities, we helped the agencies deliver comprehensive, structured solutions that met the governor's mandate in two key areas: sustainable sourcing and carbon footprint measurement and reduction.

As with any strategic initiative, sustainability needs to be managed effectively. Yet, we have found that many companies often do not know how to manage a comprehensive, integrated program, measure sustainability performance and outcomes, and achieve what we call "sustainability maturity."

Governance is key. Organizations that do not establish effective governance structures will continue to struggle to achieve the optimal value and competitive advantage that sustainability can deliver. From our ongoing experience, we know that the complexity and components of a governance structure can vary depending on whether the organization is managed in a centralized or decentralized fashion. Further, management practices will likely mimic the practices that are in place for other strategic programs within a given organization. Diageo, for example, employs a cascaded approach to governance that is applied in other strategic programs. In the area of sustainability, the drink maker has set environmental footprint reduction targets that align to corporate goals. Accountability for achieving these targets then passes through the various business units to the brand level and, ultimately, to the shop floor.

While governance practices within some companies such as Diageo are doing a good job of keeping sustainability initiatives on track and on target, a recent Accenture European investigation[8] has revealed that many companies are not deriving the value they had hoped from their sustainability performance management programs. Burdened with manual and time-consuming reporting methods, many businesses struggle to accurately measure sustainable outcomes across their organizations. They also often fail to align their sustainability initiatives to business objectives and drivers of sustainability, meaning they may not be measuring the right benefits. Naturally, there are exceptions. Novo Nordisk, the Denmark-based healthcare company focused on diabetes, is an example of a company that has integrated measurement of its sustainability performance across the organization into a balanced scorecard.[9] Other companies would be wise to develop similar mechanisms to understand the most critical drivers of sustainability performance.

Executing a successful strategy for sustainability calls for:

- Clear control and accountability
- Cross-organization coordination and knowledge transfer
- A focused, prioritized approach
- Accurate metrics to continually drive sustainability performance
- Evaluation processes to continually identify return on investment opportunities

Importantly, our European investigation into sustainability performance management revealed that companies are planning to change how they manage, govern, measure and align their programs in the near future. As just one example, a shift in accountability for sustainable business outcomes from corporate social responsibility offices to the finance organization is expected within the next three years. This makes sense, given the increasingly strategic importance of sustainability to most companies.

As the governance of sustainability performance becomes more mature, as more sophisticated analytical and reporting tools become available, and as finance organizations become more involved in management and measurement, it is likely that program outcomes will become more tangible—and more aligned to bottom-line value. At a minimum, these changes will allow companies to produce a more accurate snapshot of the performance and overall benefits of their sustainability programs to their various stakeholders.

Creating a culture of sustainability consciousness

The ultimate indications that an organization has achieved sustainability maturity are a mindset that permeates the entire enterprise and a visible commitment of all employees to "living" the organization's strategy for sustainability. A collective mindset—which we consider a fundamental element of an organization's performance anatomy—is what drives the creation of a culture of sustainability consciousness, as well as the desire to achieve sustainability-driven competitive advantage. Companies that successfully create such a culture exhibit several common characteristics.

Leadership

Organizations that excel at sustainability typically have individuals at the helm who display a sustained and public commitment to sustainability and communicate regularly on progress. Importantly, they ensure that their commitment cascades through the organization. To this end, they put processes and systems in place to make it easier for workforces to continually improve the organization's approach to sustainability, as well as sustainable business outcomes. They actively encourage innovation and knowledge sharing. And they support the development of talent management practices that reward employees demonstrating a commitment to the organization's sustainability agenda.

Integration

Living a sustainability strategy is evidenced by the fact that sustainability initiatives are integrated and embedded across the organization. True integration is essential, as opposed to random, isolated efforts with limited value. Integrated sustainability means:

- Integrated into core business strategies
- Integrated across environmental, social and economic issues
- Integrated and aligned across business segments.
- Integrated into strategy and execution across the value chain, from design to build to run
- Integrated into performance management measures so sustainability indicators can help manage stakeholder expectations and deliver both direct and indirect business benefits

Balance

Because such integration requires changing human and organizational behaviors, the ability to lead and sustain the transformation is a must. Research shows that "change leadership" actually distinguishes high performers from their competitors by helping to ensure not only the rapid execution of transformation programs, but also the balancing of strategy and execution or, to put it another way, managing for today and for tomorrow.

Dow Chemical is a case in point. Since 1990, the company has carried out a number of short-term sustainability initiatives aimed at meeting energy reduction targets. At the same time, it has mapped out goals through 2025 and has communicated these aspirations throughout the company so that employees don't lose sight of the long-term objectives. By effectively balancing its immediate and future sustainability initiatives, Dow's sustainability leaders have shaped a company-wide mindset of continuous renewal.[10]

Creating a sustainability mindset across the organization calls for leaders who are:

- Accountable for the current—and future—state of sustainability programming
- Willing to address the most challenging trade-offs
- Personally committed to the sustainability program's success
- Consistent in their leadership style
- Creating an almost tangible sense of urgency

Engagement

Business performance today is shareholder based, measured primarily by returns to investors over a given period of time. Sustainability performance, on the other hand, is stakeholder based, measured by the effect on a broader group that includes employees, regulators, partners and consumers. For this reason, the creation of a sustainability mindset requires engagement—not only with employees, as mentioned earlier, but also among other stakeholders.

Sustainability leaders know that communications, education and, ultimately, the sustainability mindset must be extended beyond the walls of the organization. Suppliers, for instance, should be treated as partners and encouraged to adopt similar approaches to sustainability. They can play a valuable role in advancing a company's sustainability agenda. Conversely, companies may want to consider adopting the sustainable practices of their suppliers if those practices can help both entities achieve common goals.

Extra-organizational relationships are not limited to suppliers. Institutional investors, regulators, universities and non-governmental organizations can all provide an important perspective that can help inform the evolution of a company's sustainability program for the long term. Hewlett-Packard, as just one example, created a Stakeholder Advisory Committee comprising Hewlett-Packard senior executives and representatives from non-governmental organizations. Together, these groups shape Hewlett-Packard's future agenda for sustainability and bring its strategy to life.

Speed

As with so many strategic imperatives, speed is of the essence when it comes to sustainability. Companies that can develop an organized, holistic approach to sustainability faster than their peers can achieve competitive advantage in a number of areas—from reputational capital to cost savings. At Accenture, we believe that the future sustainability leaders will be those that not only master the capabilities within each stage of the Sustainability Framework, but also move quickly from one level of the framework to the next. By doing so, they will be able to accelerate the realization of value from their sustainability programs and generate outcomes that will contribute to high performance for years to come.

Meeting the sustainability imperative

Accenture's recent quantitative analysis of 275 global companies confirmed that the companies ranked highest on measures of sustainability also tended to outperform their peers financially. The highest-ranked companies have clearly recognized that a focus on sustainability can do more than enhance their reputations. Indeed, the leaders have used sustainability as a lever to manage risk and achieve bottom-line results in terms of revenue improvements and cost reductions. Along the way, they have produced sustainable business outcomes that map directly to the five dimensions of high performance: growth, profitability, positioning for the future, longevity and consistency.

A deep, qualitative examination of sustainability in five companies shed light on the characteristics that set the leaders apart. While each of these companies took very different approaches to achieving sustainability, they shared an understanding of the value that an organized and integrated approach to sustainability could deliver. And whereas many of their lower-performing peers were slow to make sense of the sustainability options they could pursue (and even slower to act), the sustainability leaders were unambiguous. They saw sustainability as a strategic imperative. They aligned their programs to the right value drivers, corporate objectives and outcomes. And they maintained a clear focus on delivering value to their stakeholders.

We have captured these guiding principles in the Accenture Sustainability Framework, which has been designed to help organizations meet their own imperatives for financial, social and environmental sustainability. This framework guides organizations through three stages of sustainability maturity:

- Establishing an ambitious vision that addresses industry-specific trends and issues, as well as an action plan that enables the organization to move decisively, at speed, and with clear objectives in sight.
- Implementing an integrated approach to sustainability that balances immediate and future priorities, aligns sustainability initiatives to value drivers, accelerates the generation of benefits, and establishes a robust management structure to ensure optimal results.
- Developing an organizational mindset of sustainability that underpins an environment of innovation and continuous renewal.

Accenture is committed to helping its clients achieve high performance. We are equally committed to helping forward-thinking organizations position sustainability as a key lever to long-term success. To find out more about how Accenture can help you meet your sustainability imperatives and chart a course toward high performance, contact sustainability@accenture.com

Research Methodology

In our efforts to conduct an in-depth examination of sustainability leadership, we first identified approximately 275 global companies for inclusion in the study. Half had previously been identified by Accenture research as high-performance businesses. The other half, representing similar industries, locations and sizes, were not high performers.

At the same time, we established criteria by which we could evaluate and rank these companies on measures of sustainability. The criteria set, codified in what we refer to as the Accenture Sustainability Leadership Index, was made up of a number of external factors such as inclusion in commonly used sustainability indexes or adherence to voluntary sustainability agreements. Because each of these mechanisms, on its own, is an inexact barometer of sustainability performance that reflects different aspects of a company's commitment to sustainability, we believe that an aggregated assessment of these factors provides more accurate insights into sustainability leadership.

Finally, we looked at how companies oversaw and managed their sustainability programs. In this area, we looked at eight governance components such as the installation of a chief sustainability officer, the deployment of a central sustainability team, and board-level oversight of sustainability efforts.

Armed with this business performance, sustainability performance and governance data, we conducted quantitative and qualitative analyses to identify sustainability leaders and better understand what these companies were doing to drive optimal value from sustainability.

The Accenture Sustainability Leadership Index evaluates a company's sustainability performance based on its inclusion in key external indices or adherence to voluntary agreements, including the:

- Dow Jones Sustainability Indexes
- Financial Times Stock Exchange's FTSE4Good Index
- UN Global Compact
- Carbon Disclosure Project (and its Climate Disclosure Leadership Index)
- Global Reporting Initiative (GRI) reporting framework
- Global 100 Most Sustainable Companies (as recognized by Corporate Knights Inc. and Innovest Strategic Value Advisors)

About the Authors

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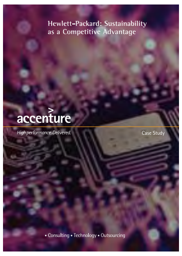
With special thanks to Eric Lowitt, a research fellow in the Accenture Institute for High Performance in Boston, for his contribution.

Further Reading

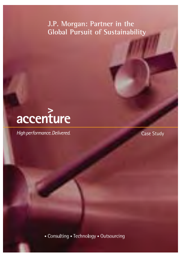
Case studies for each of the five companies we selected for greater scrutiny—Diageo, Hewlett-Packard, Iberdrola, Johnson Controls and J.P. Morgan—have been created.

Through in-depth interviews with up to 25 executives within each company, we gained insights into how these leaders developed, executed and benefited from an integrated approach to sustainability and—in the process—distinguished themselves from their peers. Find out more at www.accenture.com/sustainability.

Pursuing Sustainability at Johnson Controls



Hewlett-Packard: Sustainability as a Competitive Advantage



J.P. Morgan: Partner in the Global Pursuit of Sustainability

Real Substance: Sustainability at Iberdrola

Blending Sustainability into the Mix at Diageo

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 176,000 people serving clients in more than 120 countries. 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. The company generated net revenues of US$21.58 billion for the fiscal year ended Aug. 31, 2009. Its home page is www.accenture.com.

About Accenture Sustainability Services

We help organizations achieve substantial improvement in performance and value for their stakeholders by leveraging their assets and capabilities to drive innovation and profitable growth while striving for a positive economic, environmental and social impact. 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. For more information visit www.accenture.com/sustainability or contact sustainability@accenture.com

About the Institute for High Performance

The Accenture Institute for High Performance develops and publishes practical insights into critical management issues and global economic trends. Its worldwide team of researchers connects with Accenture's consulting, technology and outsourcing leaders to demonstrate, through original, rigorous research and analysis, how organizations become and remain high performers.

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[1] Achieving high performance: the sustainability imperative. Accenture 2008.

[2] Compatible aims: sustainability and high performance. Accenture 2009.

[3] For more information on the research methodology, see the sidebar at the end of the report.

[4] Joshua D. Margolis and James P. Walsh, "Misery Loves Companies: Rethinking Social Initiatives by Business," Administrative Science Quarterly, 2003: 48(2), pp. 268-305 and Marc Orlitzky, Frank L. Schmidt and Sara L. Rynes, "Corporate Social and Financial Performance: A Meta-analysis," Organization Studies, 2003: 24(3), pp. 403-441.

[5] We have prepared detailed case studies that demonstrate how Diageo, Hewlett-Packard, Iberdrola, Johnson Controls and J.P. Morgan are all successfully using sustainability to drive outcomes that significantly boost their standing against the five measures of high performance. To access these case studies, go to www.accenture.com/sustainability

[6] Compatible aims: sustainability and high performance. Accenture 2009.

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

[8] Optimizing sustainability performance management: a review of findings from Accenture's 2009 Sustainability Performance Management Survey. Accenture 2010.

[9] Mette Morsing and Donald Oswald, "Novo Nordisk A/S- Integrating Sustainability into Business Practice." (July 2005). Viewed September 15, 2009.

[10] See World Business Council for Sustainable Development, http://www.wbcsd.org/DocRoot/Eb1q LUYYchKPCK9ZAoIF/Dow-energy-efficiency-full.pdf, viewed September 15, 2009.

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