Stanford SOCIAL INNOVATION Review

Viewpoint

Fighting Sustainability Inertia

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Keeping sustainability programs on track requires a new mind-set, executive leadership, and clear public commitments.

BY JENNY DAVIS-PECCOUD, PAUL STONE & CLARE TOVEY

Many CEOs want to make a difference beyond the bottom line. Convinced that companies should play a positive role in environmental stewardship and social development, they declare sustainability a top priority, launch a new program, hire a chief sustainability officer, and commit millions of dollars and hundreds of hours of management time to the effort. Then momentum fades and the grand plans for making a difference fizzle out.

It is a frustrating phenomenon—and all too common. Only 12 percent of corporate transformation programs achieve or exceed their aims, Bain & Company research shows. For sustainability programs, the results are far worse, just 2 percent. Why are sustainability transformations so difficult?

One of the main reasons they fail is because leadership teams often overlook the resistance of frontline employees when implementing new approaches. If employees feel forced to choose between sustainability targets and business targets, for example, most choose business targets. As a result, executive passion remains bottled up, rather than flowing through the company.

To better understand the obstacles to sustainability efforts and how to overcome them, Bain conducted a survey of more than 300 companies engaged in such transformations. We also interviewed the heads of sustainability at companies that had been recognized publicly by sustainability ratings agencies and other organizations for their results.

Our findings suggested four guidelines to beat the odds and deliver impressive sustainability gains. First and most crucial, make clear public commitments with quantitative targets. Public targets send a ringing message throughout the ranks that helps overcome resistance to change. Second, CEOs must show the way, not just with words, but by becoming personally involved in the transformation. Third, leadership teams need to play a key role in making the business case for change throughout the organization. Fourth, leaders must reshape behaviors by changing frontline processes and incentives, and by ensuring that line managers incorporate sustainability into daily decision making. Though these conclusions may sound obvious, many companies overlook some or all of these steps and thereby fail to lay the foundation for success.

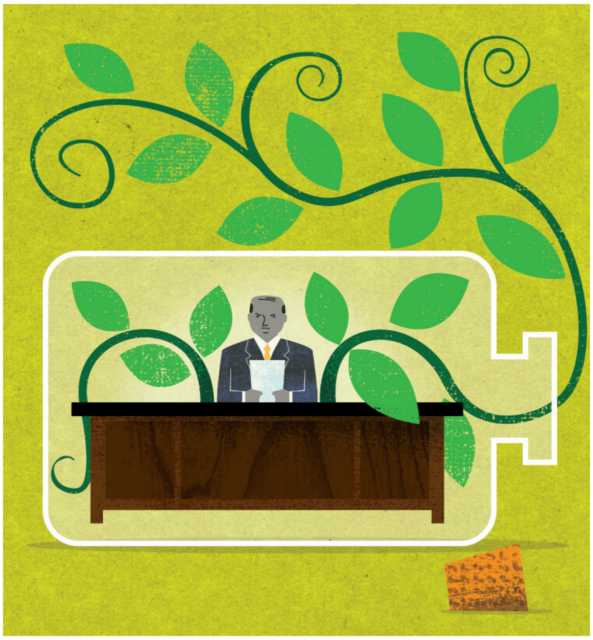

ILLUSTRATION BY MIKE AUSTIN

PUBLIC COMMITMENT

Let us start with the first rule. Bold public targets create a shared sense of mission throughout the organization and help companies stay the course during difficult phases. But many executives hesitate to make their goals public, fearing reprisal from NGOs and others if they fall short. Companies affirm that the benefits of public commitment significantly outweigh the risks.

Take Nestlé: In 2012, it announced sustainability commitments in the areas of nutrition, water, and the environment, including a pledge to reduce water withdrawals per ton of product by 40 percent, compared with 2005 levels. The process of setting public commitments prompted Nestlé to work even more closely with external stakeholders in forums such as its annual stakeholder meetings and other events. Instead of heightening NGO scrutiny, the target-setting process prompted more open feedback and a collaborative effort with stakeholders, which in turn helped the company meet its goals.

The CEO's public commitments also galvanized the company's management to create a new level of internal discipline to hit its ambitious targets. "The feedback loop of committing, acting, reporting, and then getting positive feedback from ratings agencies became a real driver for positive change," says Janet Voûte, former head of public affairs at Nestlé. In 2015, Nestlé surpassed its water objective, reducing usage per ton of product by 41.2 percent from 2005 levels, and set a new target for 2020. Nestlé now ranks No. 1 in the food, beverage, and tobacco category of the Dow Jones Sustainability Index.

CEOs create the vital liftoff energy for sustainability

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efforts and keep momentum throughout the journey. Our research shows that senior leadership support is the most important factor contributing to success, and that concrete actions—not words—make the difference. A CEO may be the only one capable of pushing through tough choices that break with long-standing practices, such as changing suppliers or customer conditions. At global food retailer Delhaize Group, for example, midlevel managers were initially reluctant to implement tough new sustainability requirements for suppliers, including fair working conditions in the supply chain and sourcing of sustainable seafood, palm oil, and wood fibers. Then CEO Frans Muller intervened in 2014 to mandate the requirements, demonstrating that sustainability was a top management priority. His action empowered managers to make similar decisions.

Broader executive-level actions also can play a critical role in supporting change. Take Novozymes, a Danish company that produces enzymes that help reduce the consumption of energy, raw materials, and chemicals. In 2008, it created an executive sustainability board, including vice presidents of each business function, to develop a sustainability strategy and targets. In 2010, the board decided to explore how it could incorporate biodiversity, socioeconomic impact assessment, and water conservation into the company's sustainability strategy. As part of a companywide effort to address water scarcity, for example, Novozymes established a hand-wash lab in Bangalore, India, that replicates local washing conditions to help local customers develop better-performing detergents that enable consumers to do their laundry with less water. Overall, Novozymes estimates that in 2015, its customers reduced their carbon emissions by 60 million tons through the use of its products.

TRANSFORMING MIND-SETS

Even when a CEO publicly supports sustainability goals, many employees assume that sustainable products or processes increase cost and undermine a company's performance. In our survey, 62 percent of respondents cited public reputation as the primary business rationale for sustainability programs—nice to have, but not essential to the business.

Such attitudes are risky for leaders seeking to achieve breakthrough sustainability targets. Frontline managers and employees juggling multiple business targets may regard sustainability efforts as nonessential or nonurgent. When that happens, sustainability goals fall to the bottom of their priority list and do not receive funding.

Leaders can overcome employees' negative attitudes by helping them understand the business case that links sustainability with success. By doubling the fuel efficiency of its vehicle fleet, for example, Walmart saved nearly $1 billion while significantly reducing greenhouse gas emissions. Growth for brands with a demonstrated commitment to sustainability was four times faster than that of nonsustainable brands in 2015, according to the *Nielsen Global Corporate Sustainability Report*.

The most effective approach is to start with something quick and simple to achieve. In 2004, Walmart decided to accelerate its sustainability efforts by adopting a trial initiative to reduce packaging for toy trucks—an easy step that saved trees, money, and fuel. Since then, the company has deepened its commitment and now embraces projects in which the business case is harder to quantify. For example, in 2009 it launched a sustainability index, which scores suppliers based on responses to critical sustainability questions. Walmart buyers incorporate these scores in supplier selection decisions, and this has helped lead to index score improvements in all major business units.

HARDWIRING CHANGE

Setting sustainability objectives has become part of the annual corporate reporting exercise. But few companies hardwire sustainability into their organizations' processes, accountability systems, and incentives. For instance, our survey revealed that only 24 percent of employees are held accountable for sustainability in a meaningful way.

Companies that achieve ambitious sustainability goals embed suitable behaviors and processes throughout the business and make line managers responsible for delivering results. For example, some companies change their capital-approval process to include sustainability factors, or increase time horizons in business case assessments, allowing more sustainability initiatives to qualify for investment. Danish pharmaceutical company Novo Nordisk, for example, established an internal price on carbon, so business units that reduce carbon emissions receive cash back.

"We proved early on the kinds of sustainability initiatives that had an attractive return on investment, so we developed a methodology to remove barriers to these projects being approved," says Novo Nordisk's vice president of corporate sustainability, Susanne Stormer. In 2012, media company Corporate Knights named Novo Nordisk the world's most sustainable company.

Successful companies also embed sustainability priorities in their incentive structures alongside other key performance indicators. Food retailer Delhaize Group linked remuneration to sustainability in all areas of the business. Until it did so, only 20 percent of leadership had their annual bonus linked to the company's sustainability efforts, says Megan Hellstedt, vice president of sustainability at Delhaize Group. By 2014, all Delhaize officers had annual incentive bonuses tied to sustainability goals, and sustainability performance made up 10 to 30 percent of bonuses.

Even the most passionate sustainability executives realize that there are limits for publicly owned companies. For example, if a specific sustainability initiative erodes the long-term economics of a brand, it becomes hard to make a business case to support it. It can also be difficult to change consumer behavior. Companies that set ambitious sustainability goals often need to launch more than one effort to see what will stick. Organizational change is challenging and takes time and management commitment, but companies that succeed say it is worth the investment. ■