Coca-Cola Enterprises

Sustainability Insights:

Learning from Business Leaders

A Coca-Cola Enterprises report, written by the Economist Intelligence Unit

01 October 2013

WRITTEN BY

The Economist Intelligence Unit

Executive summary

While carbon reduction and broader sustainability objectives have been on European boardroom agendas for more than a decade, the onset of the financial crisis in 2008 prompted many to predict that companies would abandon their sustainability investments. This has not proved the case. In the face of tough economic conditions, companies have continued to push ahead with sustainability initiatives. Those having the greatest success are forming wider partnerships with external organisations such as non-governmental organisations (NGOs), universities, suppliers or customers.

As this research reveals, companies are using technology to improve engagement with customers, measure their environmental impact and source clean tech ideas. Internally, companies are working to ensure all levels of management are committed to sustainability goals, though few have formalised this by engaging C-level executives. Many are developing more sustainable products and services.

While a significant minority views sustainability as a source of competitive advantage, the battle to embed sustainability in business is far from over. Financial obstacles continue to hinder companies' progress, and while executives acknowledge that sustainability can deliver business advantages, most still see this in terms of improved reputation.

Key findings include:

- **Sustainability remains a strong focus for companies despite financial obstacles:** A majority of companies (52%) display a surprising ability to maintain commitment to sustainability objectives despite the financial crisis. Although business executives most frequently identify financial challenges (44%) as the leading obstacle to the implementation of their company's sustainability strategy, nearly half (49%) recognise sustainability as a source of competitive advantage. The gradually improving macroeconomic environment may further ease financial constraints.
- **Top executive involvement is key to implementing a sustainability strategy:** Senior leadership engagement is identified as the leading success factor in implementation of sustainability initiatives (44%). There are concrete steps to make this happen. Some companies are linking management compensation to meeting their sustainability targets. Others are reshaping their functional structure to align their sustainability initiatives with their business development. This makes sense as sustainability is shifting from a single department to one that spans several functions. Indeed, successful businesses are often building linkages outside of the company's bounds: this requires the guidance and buy-in of senior executives.
- **Better reporting is a crucial starting point.** At present under a third (31%) of respondents include environmental metrics in their financial reporting and still fewer (26%) have all departments report on their sustainability endeavours. For companies to identify the most relevant issues for their businesses and plan how best to direct their investments, senior executives need access to meaningful data. Thorough reporting can be useful externally to engage stakeholders and internally when building a solid business case.
- **Some leading companies have managed to link sustainability, innovation and competitive advantage.** Although, cutting costs while delivering sustainability objectives are the most popular sustainability initiatives. Two-thirds of companies are engaged in waste reduction and recycling, while more than half (54%) have embarked on energy efficiency and carbon reduction initiatives. These initiatives do not change the underlying business model but they do realise operational greater efficiencies. While some companies have managed to link sustainability, innovation and competitive advantage, others remain focussed on the brand implications of their sustainability strategy.
- **Businesses successfully engaging with NGOs or universities are more likely to embark on ambitious sustainability endeavours.** These include investing in renewable energy (47%) and pursuing sustainable sourcing (49%) while the average is only 33% in each of these areas for companies less effectively connected to these sorts of civil society organisations. Drawing in a wider network of stakeholders tends to go hand-in-hand with successfully implementing a sustainability strategy. Almost a third (27%) of respondents are seeking to innovate through partnerships with NGOs.
- **New technology platforms are playing an important role in developing more sustainable business models.** More than four in ten respondents (41%) are harnessing technology to generate new ideas and platforms as part of their sustainability objectives. This can mean tapping into industry insights and customer feedback or tracking resources through the product lifecycle. Indeed, over three-fifths (61%) of respondents say technology is contributing to their sustainability innovations with more than four in ten (41%) using data analytics to design more sustainable products. Crucially technology is opening up opportunities to collaborate more closely with suppliers and engage customers with a company's sustainability goals.

These findings suggest that progress is being made but also highlight important gaps, with room for greater collaboration with external partners and forgone opportunities to use senior management involvement to integrate sustainability through all aspects of the business.

About this report

Sustainability insights: learning from business leaders is a Coca-Cola Enterprises report written by the Economist Intelligence Unit (EIU). It investigates European companies' experiences in setting and pursuing sustainability objectives – the measures that have worked well, and those that have not. To shed light on this, the EIU conducted a survey of 334 executives based in Europe in August 2013. Over three-fifths (62%) of the respondents are board members or C-level executives, the rest being other senior managers. Drawn from a range of industries, half of the firms surveyed generate over US$500m in annual revenue and 25% of respondents had direct authority over their organisation's sustainability endeavours.

To complement the survey findings, the EIU also conducted in-depth interviews with senior executives and sustainability experts. We would like to thank all survey respondents, as well as the following executives (listed alphabetically) for their time and insights:

- **Wayne Balta,** vice-president of Corporate Environmental Affairs and Product Safety, IBM
- **Stefan Heck,** head of the Global Cleantech Practice, McKinsey
- **Gail Klintworth,** chief sustainability officer, Unilever
- **Didier Roux,** vice-president of R&D and Innovation, Compagnie de Saint-Gobain
- **Matt Sexton,** interim director of Net Positive and director of corporate responsibility, B&Q
- **Claus Stig Pedersen,** head of corporate sustainability, Novozymes
- **Sally Uren,** chief executive, Forum for the Future
- **Fokko Wientjes,** sustainability director, Royal DSM

The report was written by journalist and author Sarah Murray; it was edited by Brian Gardner and Zoe Tabary. The Economist Intelligence Unit bears full responsibility for the content of this report. The findings do not necessarily reflect the views of Coca-Cola Enterprises.

About Coca-Cola Enterprises

Coca-Cola Enterprises, Inc. (CCE) is the leading Western European marketer, producer, and distributor of non-alcoholic beverages and one of the world's largest independent Coca-Cola bottlers. CCE is the sole licensed bottler for products of The Coca-Cola Company in Belgium, continental France, Great Britain, Luxembourg, Monaco, the Netherlands, Norway, and Sweden. CCE operates with a local focus and has 17 manufacturing sites across Europe, where it manufactures nearly 90% of its products in the markets in which they are consumed. Corporate responsibility and sustainability is core to CCE's business, which has been recognised by leading organisations in North America and Europe for progress in water use reduction, carbon footprint reduction, and recycling initiatives. For more information, please visit www.cokecce.com and follow @cokecce on Twitter.

About the Economist Intelligence Unit (EIU)

The Economist Intelligence Unit (EIU) is the world's leading resource for economic and business research, forecasting and analysis. It provides accurate and impartial intelligence for companies, government agencies, financial institutions and academic organisations around the globe, inspiring business leaders to act with confidence since 1946. EIU products include its flagship Country Reports service, providing political and economic analysis for 195 countries, and a portfolio of subscription-based data and forecasting services. The company also undertakes bespoke research and analysis projects on individual markets and business sectors. More information is available at www.eiu.com or follow us on www.twitter.com/theeiu

The EIU is headquartered in London, UK, with offices in more than 40 cities and a network of some 650 country experts and analysts worldwide. It operates independently as the business-to-business arm of The Economist Group, the leading source of analysis on international business and world affairs.

Introduction

More than two decades on from the 1992 Earth Summit, it would be hard to find a major brand that has not at some level embraced the concept of sustainable development. Driven by a range of motives – from cost cutting and brand management to the need to innovate and enter new markets – companies are continuing to invest in sustainability initiatives, despite the global economic slowdown.

And in the past decade, some firms have learned from their experiences and refined the implementation of sustainability across their businesses. Even so, many are still at a relatively early stage in that process. The success and sophistication with which companies are adopting sustainability strategies varies widely. While some are making strong links between innovation, competitiveness and sustainability, others struggle to integrate more than communications tools to shape their reputation.

There is value in moving beyond the realm of public relations. As the world's carbon emissions rise and resources face constraints, pressure on companies to address their environmental footprint is coming from governments, consumers and investors. Meanwhile, the rising incidence of extreme weather events such as droughts, floods and storms has focused attention on the extent to which businesses are exposed to the effects of environmental disasters. As the risks become more tangible, many companies see a need to accelerate the rate at which they integrate sustainability into their business.

Yet sustainability is about more than risk management. In fact, leading companies are increasingly turning sustainability initiatives into ways of innovating, engaging employees, winning supply contracts and tapping into new markets. The question for the broader business community, therefore, is what changes they will need to make to their products, processes and business models in order to tap into these opportunities.

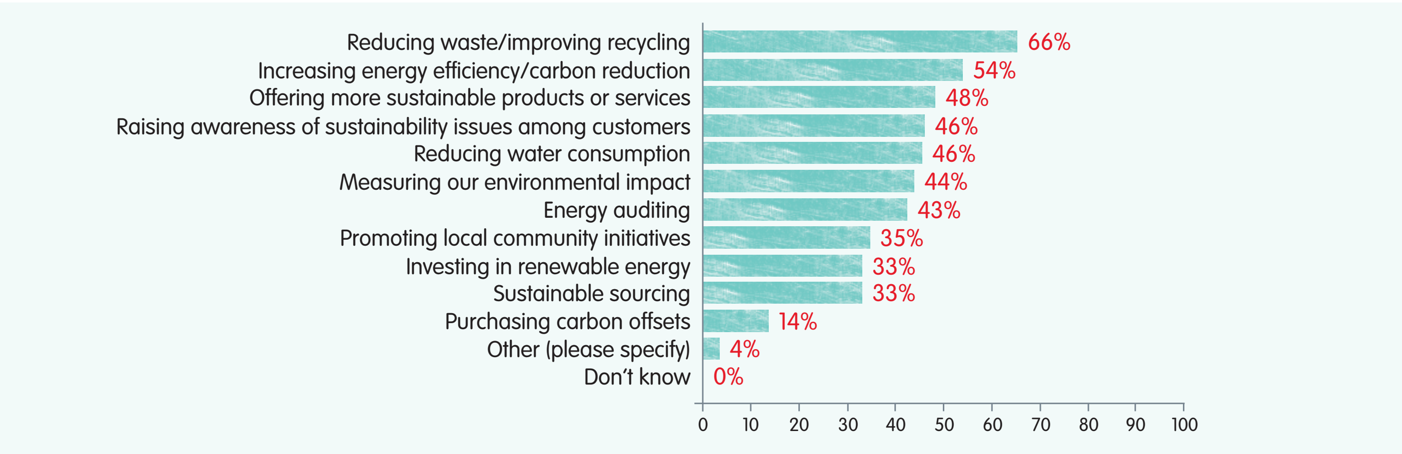
Section 1: Moving ahead

With more than half (52%) of respondents saying that, despite the downturn their company is maintaining its commitment to sustainability, this agenda is clearly being taken seriously and is no longer specific to a handful of large corporate pioneers. Only a fifth see sustainability as the preserve of large companies.

"A lot has changed in the past five years – sustainability went from a relatively marginal topic 15 years ago to now, when everyone has something to say about it," says Stefan Heck, head of the Global Cleantech Practice at McKinsey, a consultancy. "And we've seen quite a bit of progress, despite the fact that macro-economic conditions have not been conducive to major new investments or bold initiatives."

In fact, in some areas, the downturn may have been a positive force, emphasising the cost cutting potential of resource and energy efficiency. Most companies are tackling low-hanging fruit, with two-thirds of companies engaged in waste and recycling, followed by energy efficiency (cited by 54%). Impressively, significant minorities are taking more ambitious steps, such as investing in renewable energy (33%) or sustainable sourcing.

Which of the following sustainability related initiatives, if any, is your company engaged in?



Source: Economist Intelligence Unit

Awareness is shifting with some companies seeking to do more than minimise harm. "We have to look at the potential to have a restorative effect," says Matt Sexton, interim director of Net Positive, Kingfisher plc's sustainability program and director of corporate responsibility at B&Q, the UK's largest home improvement retailer. "We're nowhere near that yet. But if that's ultimately where we have to go, we need to demonstrate that this is possible in a way that's good for the business as well as for the planet and society."

One area in which B&Q, part of Kingfisher, has done this is through its garden heating equipment. The company recognised that selling patio heaters designed to warm outside spaces was inconsistent with its low-carbon goals and took the unusual step of withdrawing what was otherwise a successful product line. Instead, it now sells chimney garden heaters that run on wood certified as sustainable by the Forest Stewardship Council (FSC), building a new business line in wood fuel.

"The most advanced companies are those that are rethinking their portfolio and getting out of businesses that are less sustainable," says Mr Heck. Though not all organisations are going this far, almost half of companies (48%) are developing more sustainable products and services. This helps them not only to improve their environmental footprint but also to tap into new markets.

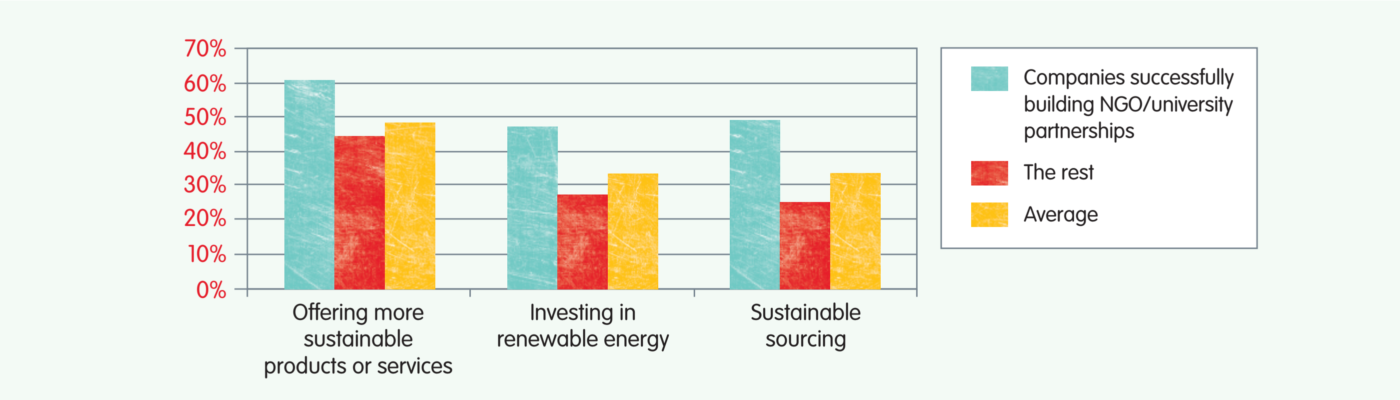
Unilever, for example, has developed laundry products requiring less water to rinse. While contributing to water conservation, the products have proved popular in parts of the world such as India where water is scarce. Gail Klintworth, Unilever's chief sustainability officer, says developing consumer products that address environmental challenges can therefore create new growth opportunities for the company. "That's what makes everyone's heart beat faster," she says.

And providing green products and services goes hand in hand with educating consumers – some 46% say they are raising awareness of sustainability issues among their customers. This suggests that companies are integrating their environmental activities into their market development strategy by creating demand for products and services that are more sustainable.

"If we can offer our customers a better proposition and expand or enter new markets, that is the driver of our sustainability agenda," says Fokko Wientjes, sustainability director at Royal DSM, a Dutch life sciences and material sciences group.

The benefit of partnerships with external stakeholders, such as non-governmental organisations (NGOs) or universities, is reflected in the survey – those engaging in such partnerships are performing better across a wide range of areas in sustainability. Royal DSM for example, is pursuing a range of partnerships with NGOs and companies in areas ranging from malnutrition to climate change. Through a long-term partnership with the United Nations World Food Programme, for example, it is working to improve the nutritional value of emergency food supplies. "We have many partnerships in combating malnutrition, where DSM has its strengths," says Mr Wientjes. "But in other areas, we're also looking at involving other players. For instance, we're having very open discussions with Greenpeace about what they have on their agenda, what we have on our agenda and where there is overlap."

Which of the following sustainability related initiatives, if any, is your company engaged in?



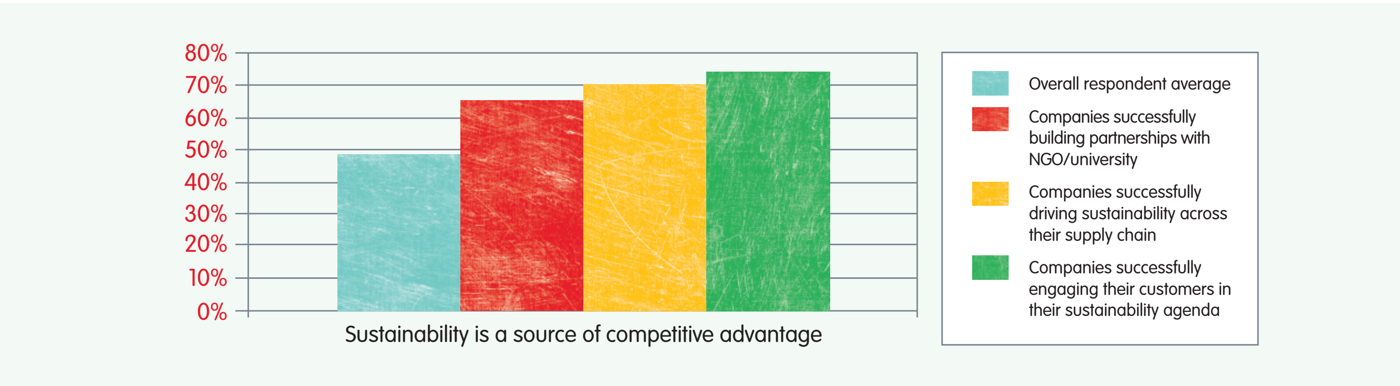
Source: Economist Intelligence Unit

Senior executives confirm the merits of the partnership approach. "It gives us headlights into what different constituencies are thinking about, which gives us the opportunity to adjust our business based on what is becoming important," says Wayne Balta, head of environmental affairs at IBM, the technology company.

For Mr Wientjes, partnerships are a means of harnessing the skills and knowledge. "We want to get certain things, like nutrition security, higher on the agenda and better solutions out there," he states. "As the proverb says: if you want to go fast, go alone. If you want to go far, go together."

These linkages bring real advantages and leading companies are beginning to derive business value through their sustainability endeavours. While under half of respondents (49%) recognise sustainability as a source of competitive advantage, those that are working successfully with external partners are far more likely to realise competitive advantage for their companies. As NGOs, suppliers and customers are more effectively engaged, the ability of sustainability to complement business drivers escalates. Indeed, retention can be affected as customers buy into the sustainability agenda of a company. Suppliers can cut costs and improve their branding by working with clients to improve standards, while NGOs can lend their legitimacy to help forge public trust.

Share of respondents agreeing with 'Sustainability is a source of competitive advantage for my company'



Source: Economist Intelligence Unit

Sally Uren, chief executive of Forum for the Future, a sustainability think-tank, believes this is a significant shift, taking companies from "tactical responses to a set of environmental and social issues" to "responding in a strategic fashion to big macro trends in order to secure the path to long-term value creation."

Sources of innovation

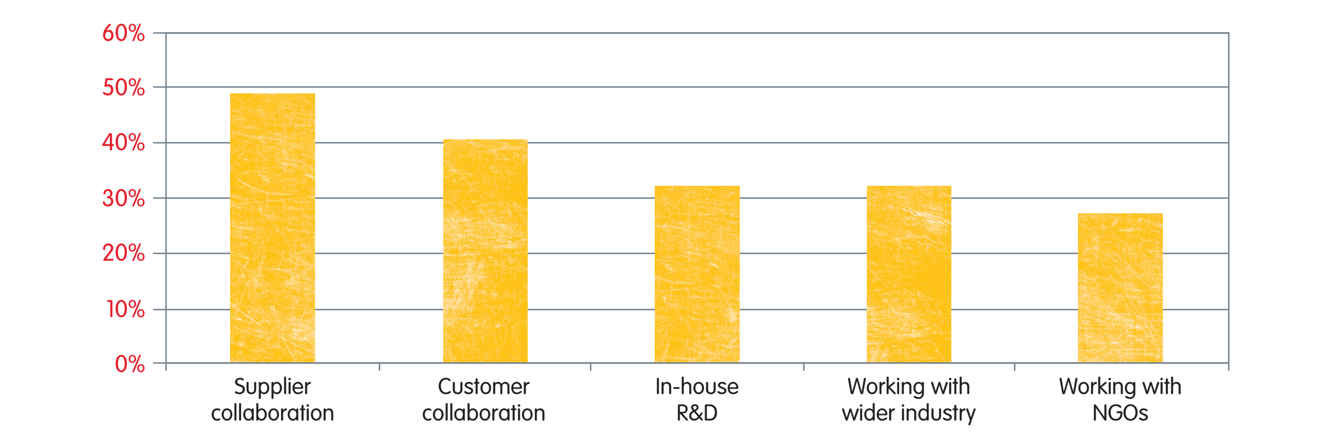
Without the ability to innovate, companies will struggle to merely reduce the pollution they cause. Through innovation, many are able to profitably make a broader positive contribution to society. This makes the sources of innovation a vital management question. And while businesses once tended to seek ideas from inside their organisation, usually by investing in R&D centres, many are now turning to external sources of innovation as well.

The internal focus is still an important one. The survey reveals that most companies (71%) turn to employees for sustainability innovations. And where companies place the sustainability function within the corporate hierarchy, it can make a difference to levels of innovation. Companies that are linking sustainability with business opportunity are moving the individuals and departments responsible for sustainability closer to R&D and innovation centres.

Nike, for example, has gone as far as to make a single executive – Hannah Jones – responsible for both sustainable business and innovation. And when Novozymes, the Denmark-based biotech company, recently re-organised its corporate structure, sustainability was moved from the staff function into business development.

However, because challenges such as resource conservation or emissions reduction are often complex and require science and engineering expertise as well as business tools, companies are starting to look beyond their own human capital for sources of innovation. In the survey, a significant proportion of respondents are seeking contributions from suppliers (49%), as well as from customers (41%).

How does your company seek out ideas for sustainability innovation?



Source: Economist Intelligence Unit (Percentages do not add up to 100% as respondents were allowed to select more than one option.)

Some companies are using open-innovation practices to source clean tech ideas. Through its NOVA External Venturing unit, Saint-Gobain, a French building materials group, uses the NOVA Innovation Competition to identify and engage with innovative start-ups in building construction, advanced materials, lighting technologies, energy efficiency and environmental sustainability.

Technologies developed by finalists have included electrochromic window coatings (which change from transparent to a tinted state, reducing the energy consumed by cooling, heating and lighting) and a tablet-based collaborative technology that allows builders to view all project information and create instant renderings while on the construction site. While the finalists attract attention, the entire cohort of competition entrants gives the company a window on to the ideas being developed by other companies, some of which may end up partnering with Saint-Gobain.

"We have to work internally and use our network of R&D centres," says Didier Roux, the company's vice-president of R&D and innovation. "But we also want to be much more open to the outside world than in the past."

In looking broadly for ideas, new online platforms and social media play a critical role, allowing companies to tap into the wisdom of crowds, whether those are customers or industry experts.

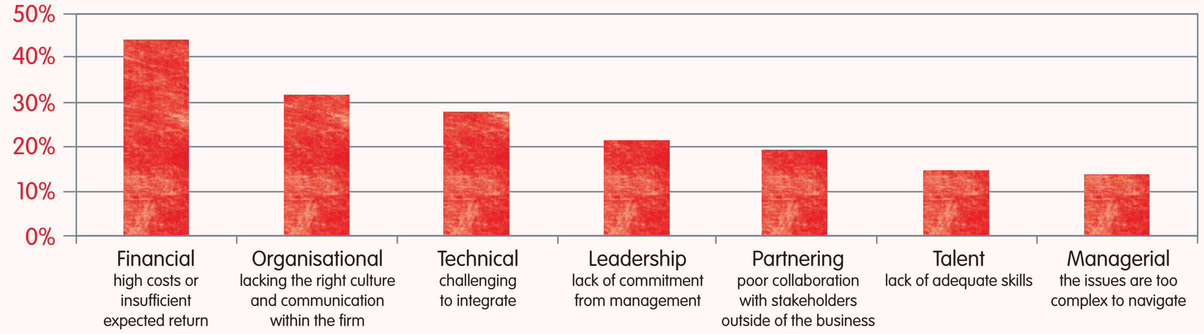
For example, in June, Unilever launched an online video competition to find an environmentally friendly shower, offering the winning submission a cash prize and a trip to London to develop the idea. And through a partnership between Environmental Defense Fund, a US-based environmental group, and InnoCentive, an online open innovation company, companies can post "eco-challenges" and seek out ideas from all over the world. "Technology can be a lightening rod for collaboration," says IBM's Mr Balta.

Section 2: Room for improvement

Given the level of commitment of some companies, it might be tempting to assume that sustainability is now a mainstream part of corporate strategy. However, while impressive programmes proliferate, the broader business community still faces plenty of barriers to integrating sustainability across their enterprises.

The biggest barrier is financial, with companies worrying about the cost of sustainability and unsure whether their investments will deliver a financial return. Almost half of executives (47%) say financial challenges are the leading obstacle to implementing a sustainability strategy. Given Europe's current business climate, resources can certainly be difficult to find but managers may be missing out on other equally vital constrains. Small minorities view leadership (21%) or managerial (14%) obstacles as impediments to a successful sustainability strategy. This is surprising since senior leadership engagement is most frequently (46%) cited as the leading factor in the success of sustainability endeavours.

What would you say have been the main challenges for your company in implementing its sustainability strategy over the past three years?



Source: Economist Intelligence Unit

Part of the problem may be a lack of information. Barely a quarter of respondents (26%) say their company evaluates sustainability initiatives in all of its business units. Less than a third (31%) include environmental metrics in their financial reporting. Without the right data and appropriate metrics, executives may be at a loss to assess the broader returns from sustainability activities.

There is also a disconnect between what is valued and what is measured. While improved reputation leads (for 61% of respondents) as the primary benefit of a sustainability strategy, only 21% of companies assess the implications of their sustainability strategy on their brand. The complexity involved is one of many challenges for building a comprehensive business case for sustainability endeavours. Many companies view sustainability through the narrow lens of brand management, although most do not consistently ensure that they make informed decisions about the reputational impact of their actions. This makes it difficult for sustainability to be integrated into the core of a company's strategy.

Moreover, companies struggle to identify what sustainability issues matter most to their business and which investments will deliver the greatest returns – both in reducing their environmental footprint and cutting costs. Mr Heck says companies have not always honed in on initiatives with greatest potential for impact on their operations. He cites the rush to construct green buildings. "A lot of companies invested in iconic headquarters, whereas re-fitting their manufacturing plant would have saved more money and made a bigger difference to their environmental footprint," he says.

At B&Q, Mr Sexton says one lesson he has learned over the years is the importance of recognising where the company's biggest impact is, rather than trying to tackle every environmental challenge. "It's a question of choosing your battles," he says.

Once companies have established what is critical to their own operations, experts stress the need to look beyond their own four walls. "Big companies rely on commodities coming from all over the world," says Dr Uren. "One company alone can't secure the sustainability of the supply chain."

However, collaborating with stakeholders does not come easy. For example, apparel companies have often struggled to improve working conditions in the facilities producing their garments since they do not own those factories. As a result, industry coalitions have emerged, such as the UK's Ethical Trading Initiative, an alliance of companies, trade unions and NGOs, and the C4 Association, which unites 280 companies in developing social and environmental standards for the sustainable production, processing and trading of coffee.

Another challenge in working collaboratively is establishing the intellectual property (IP) ownership arising when innovations result from partnerships. "The main challenge of working with universities is the separation of what IP belongs to the university and what belongs to the company," says Mr Roux.

Currently, less than a third of respondents (31%) say their company is successfully driving sustainability across its supply chains. Many may be missing an opportunity since, for some companies, the greatest potential for environmental efficiency lies outside their direct control. For example, while food retailers' stores consume energy, the agricultural operations, transport, processing and packaging of their suppliers generates a far bigger impact.

Dr Uren says that the drive to outperform their competitors often makes companies reluctant to join forces with others in their sector. "That's a real tension for companies because the business mantra is competition," she says. "But winning today and tomorrow requires a very different approach."

Yet extending sustainability beyond internal operations can create opportunities, such as new business relationships with enterprises that prioritise sustainability. At Novozymes, helping customers, many of which are suppliers to Walmart and other major players, use biotechnology to develop products using less energy, water and raw materials has enabled the company to establish long-term sustainability relationships with global retailers. "It was a fantastic breakthrough that we could get a dialogue with top management at Walmart on sustainability - we learned and shared a lot," says Claus Stig Pedersen, the company's head of corporate sustainability.

The survey results highlight room for a more collaborative approach. Only 27% of respondents say their organisations are seeking innovations through partnerships with NGOs, for example. Yet sustainability executives stress the importance of companies working with NGOs on environmental challenges, particularly in developing countries. "NGOs provide access and the knowledge on how to drive this through communities," says Unilever's Ms Klintworth.

As well as facilitating a bigger environmental impact, working with industry peers helps create a level playing field, enabling sustainability investments to become more competitive. B&Q has done this through its commitment to using only products made from FSC certified wood. "Where you have clout is where you can establish a new industry norm," says Mr Sexton. "Which means that in the long term you won't be competitively disadvantaged."

Of course, companies may initially be reluctant to share information about their operations with their competitors. Nevertheless, argues Dr Uren, because challenges such as water conservation and carbon reduction affect all companies, these are things they can work on collectively. "It's about having a clear understanding of what is pre-competitive and what is competitive," she says.

Section 3: Technology a powerful sustainability tool

Given the emphasis on minimising consumption of resources such as water and energy, companies need ways to track their use. When sensors or smart meters are combined with software, technology is a means of doing so. However, technology offers many other sustainability applications, from using social media to raise consumer awareness of climate change to crowdsourcing clean tech ideas.

Companies appear to be making good use of these tools; a majority (60%) of respondents say technology investments contribute to their sustainability-related innovations. Moreover 41% of companies are enjoying success with technology as a means of generating new ideas and platforms for their sustainability initiatives. Fully 74% are using innovative technologies to reduce their environmental impact with 43% seeing success in their endeavours.

Data, mapping and metrics are key to subsequently reducing environmental impact. Web-enabled sensors generate large volumes of information – which can then be analysed – on things such as water leaks or inefficiencies in energy use. When connected wirelessly to servers, objects such as traffic lights generate large volumes of data that can inform real-time operational changes that, for example, help reduce the build up of emissions-producing traffic jams.

Software tools make sense of these large volumes of environmental data, says IBM's Mr Balta. "We're awash with data and the challenge is to turn that data into useful information," he says.

Measuring the lifecycle impact of products and processes is also assisted by technology, says Ms Klintworth. "You can do it more easily than in the past because you can build the software to do it," she says.

And, of course, once companies can measure their impact, they can report on it. "Increasingly you're seeing companies striving to getting the same degree of accuracy for environmental data as they have for financial data," says Dr Uren. "And this is important because if you cut carbon, waste and water you also cut expenditure." Only a minority of companies are explicitly including environmental metrics in their financial reporting but trends towards integrated reporting have been increasing.

Furthermore, technology is enabling companies to design more sustainable products and services, with 41% of surveyed companies already doing so. For instance, simulating the performance of products long before their development is another means for businesses of advancing sustainability goals. Indeed sustainability principles can be applied across the entire product cycle. For manufacturers, this means designing products with less waste and fewer components with easy disassembly or recycling at the end of their lives. The principle applies to buildings, too. Saint-Gobain is using computer simulations to calculate everything from how buildings will perform in different weather conditions to which external coatings increase their energy efficiency.

Perhaps most compelling is the opportunity to engage across entirely new platforms. A large proportion of respondents (58%) say their company is using technology to develop more sustainable business models and 54% are using social or mobile technologies to engage with their customers. In South Africa, IBM has done this in a water conservation project for the government in which anyone who notices a broken pipe or water leak can use a mobile phone app to report it. The data is then aggregated to create a map of leak hot spots.

Technology also helps consumers make decisions that reduce environmental impact. For example, IBM worked with the city of Stockholm to introduce road metering to combat rising traffic congestion. It created an automated road-use charging system based on advanced optical recognition and RFID (radio-frequency identification) technologies, generating a 20% to 25% reduction in traffic while cutting transport-related carbon emissions. "The world isn't smart enough to be sustainable, so how do we make it smarter? We enable people to make better decisions," says Mr Balta.

For Dr Uren, whether measuring environmental impact or engaging customers through social media, technology is a key tool in advancing the sustainability agenda. "It's about seeing what the levers for change in the organisation are," she says, "and how we might press those levers to push towards being a more sustainable enterprise."

Section 4: Management paths to success

If technology and innovation can advance business sustainability, a tougher challenge is to marshal human resources, particularly senior leaders. Almost half of respondents (44%) see engaging senior leadership as the critical ingredient in the success of sustainability initiatives. Yet in practice few are doing so.

Experts and senior executives point to leadership as critical to the success of sustainability strategies. "You need someone at the top really paying attention," argues Mr Heck. The challenge appears to be a mismatch between acknowledgement of the importance of leadership and an inability to put that into practice. Only 28% say their company has periodic board-level meetings addressing environmental issues and even fewer (22%) have C-level executives responsible for measuring success in meeting sustainability goals (22%). This suggests that while companies recognise the critical involvement of senior leaders in advancing these strategies, few have managed to institutionalise sustainability concretely for their top executives.

Ms Klintworth emphasises the link between senior involvement and sustainability success. She points to the fact that at Unilever, chief executive Paul Polman launched and led an ambitious strategy in 2010. With the Sustainable Living Plan as a framework, Mr Polman set a goal of doubling sales while reducing the environmental impact and increasing the positive social impact of Unilever's products. "A key factor is leadership," says Ms Klintworth. "Since sustainability – like anything else – means bringing about a change in the way we do business," she says.

But while companies recognise that establishing mechanisms to execute, monitor and report on goals – as well as the authority to drive engagement through the creation of external partnerships – requires senior involvement, the challenge is how to bind their leaders more closely to sustainability strategies.

Some are doing this by rewarding sustainability performance. At Royal DSM, 50% of each board member's bonus payment is based on meeting sustainability targets that relate to innovation, employee engagement, energy efficiency and greenhouse gas emissions.

Dr Uren argues that this approach should be applied to all employees. "When you integrate sustainability into the job description, it ceases to become something separate, at the edge of your work," she says. "That's why the reward and performance management structure is so important."

Kingfisher is one company that plans to spread sustainability-linked performance management throughout the organisation. Senior executives at the company already have their remuneration linked to building Net Positive into their strategy and four-year plans.

In addition, remuneration for the heads of certain functions is linked to sustainability goals. In the case of B&Q's property team, for example, the senior executive has to meet targets for investment in efficient lighting technology and energy reduction. In logistics, managers have fuel reduction targets built into their goals.

"When it's specific and quantifiable, it's in the objectives. And it's in the general goals of the top management," says Mr Sexton. "Where we have to go with it is to diffuse that further down through the organisation."

But while performance management is one lever companies can use to engage their leadership in sustainability, others are reshaping the organisational hierarchy. Since taking up his role at Royal DSM in 2006, Mr Wientjes has pushed responsibility for sustainability across the enterprise. "When I started in this position, the sustainability agenda was owned by our operations people," he says. "But I wanted it to be market-led and something where the innovation director and head of marketing were involved."

In the process, sustainability leadership is moving away from a single department to becoming the responsibility of top executives across the business. Mr Wientjes believes this should ultimately lead to the disappearance of the sustainability function. "My intention is not to have this department as an institution, but to get people to look at societal challenges as business opportunities," he says. "So will I have a successor? Probably. Will he or she have a successor? Maybe – but not necessarily."

Case study: Novozymes: leadership in action

One organisation that has found a tangible way to engage senior leaders in its sustainability agenda is Novozymes. The Danish biotech company has established a Sustainability Development Board on which all vice-presidents – from sourcing and marketing to R&D to finance – are required to sit.

"The board is composed so it covers all elements of the value chain," explains Claus Stig Pedersen, Novozymes' head of corporate sustainability. And involving all functional leaders, he adds, makes it easier to identify commercial opportunities. "We believe sustainability can do a lot more in contributing to innovation in new business areas," he says.

At meetings held five times a year, board members are expected to present sustainability challenges from their functional areas to the board, which then sets targets and strategies for achieving them.

Once new targets have been established, it is not the sustainability team's job to follow up but that of individual board members. In the case of a new supplier evaluation programme, for example, the head of sourcing would be accountable to the board for executing the plan and meeting its goals.

When a goal has been set, a project team is formed consisting of executives from that line of business (such as procurement, in the case of a supplier evaluation programme). And while one or two sustainability experts from Mr Stig Pedersen's team might advise this team, responsibility for execution lies with the business unit.

"It's critical that ownership for all sustainability activities is anchored immediately in the line of business," says Mr Stig Pedersen. The advantage of this, he explains, is that because executives know they are accountable to the board, tough discussions take place before any decisions are made. "That means we prioritise what is really important for the business," he says. "And not what's just nice to have."

What the Novozymes approach illustrates is that senior leadership is essential when implementing sustainability strategies since without it, it is not possible to set appropriate corporate policies or define departmental responsibilities.

Conclusion

In recent years, companies' approaches to sustainability have clearly matured, with many successfully engaging their stakeholders and using new technologies to implement sustainability strategies. Despite the economic downturn and the financial burden some see in these investments, a surprising number of companies are maintaining or expanding their commitments. And while for the most part efforts are focused on cost cutting, some are taking bolder steps such as investing in renewable energy or developing entirely new business models.

However, the survey results reveal weaknesses, too. Greater opportunities exist to harness the transformative power of external partnerships and senior leadership engagement. In fact sustainability is still being implemented unsuccessfully or at a relatively superficial level in many enterprises.

This may be partly due to executives treating brand improvement as the primary benefit of sustainability. Companies need to recognise that while resource efficiency and public image are among sustainability's prizes, deeper engagement can deliver benefits that range from winning new markets to building a more robust supply chain.

That is not to say reaping these benefits comes easily. Harnessing the competitive advantage of sustainability can mean making fundamental changes to long-held industrial practices or rethinking product portfolios. Certain companies will need to exit environmentally undesirable business areas and engage their customers more deeply in their sustainability efforts.

Technology is a powerful tool in this, helping companies measure their environmental impact, identify new ideas through open sourcing and communicate more effectively with consumers to develop demand for sustainable products and services. However, technology alone cannot transform the business. Change management is essential if companies are to develop business models that meet sustainability challenges. For those that succeed, the return goes beyond cost cutting and reputation management. These companies will be able to attract new customers, become preferred vendors and enter new segments – turning sustainability from a risk management or marketing tool into a significant business opportunity and a source of competitive advantage.