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David Kiron, Nina Kruschwitz, Knut Haanaes and Ingrid von Streng Velken

Sustainability Nears a Tipping Point

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Sustainability Nears a Tipping Point

This year, more survey respondents say sustainability is on their company's management agenda. Not all companies have found ways to profit from their sustainability efforts — but those that have share some interesting characteristics.

BY DAVID KIRON, NINA KRUSCHWITZ, KNUT HAANAES AND INGRID VON STRENG VELKEN

THE LEADING QUESTION
What are companies who are profiting from sustainable business practices doing differently?

FINDINGS
- "Harvester" companies are more likely to have strong CEO commitment to sustainability.
- They are three times more likely to have a business case for sustainability.
- They are more likely to collaborate with external groups.

IN THE SUMMER OF 2010, Jos de Wit, a senior research associate for Eastman Chemical Co., was thinking about $50,000, Kenya, and HydroPack, a paper-thin, five-by-seven-inch bag that could transform contaminated water from virtually any source — sewage, floodwater, swimming pools — into a nutritious drink.

De Wit was trying to convince senior managers at his company to finance a $50,000 demonstration project that would field test HydroPack in a village in Kenya. While HydroPack was not an Eastman product — it is produced by a small company called Hydration Technology Innovations — the product does incorporate Eastman materials. De Wit believed Eastman should extend its support for a technology that had already demonstrated its ability to save lives: Some 24,000 HydroPacks were used in Haiti in the aftermath of the country's 2010 earthquake.

At first, de Wit tried to persuade Gaylon White, who as director of the Eastman Innovation Lab seemed a natural champion. White, however, was overloaded with work and knew that obtaining funding for the project would be a challenge. The amount of Eastman material used in the HydroPack membrane was so small that it was insignificant from a business standpoint.

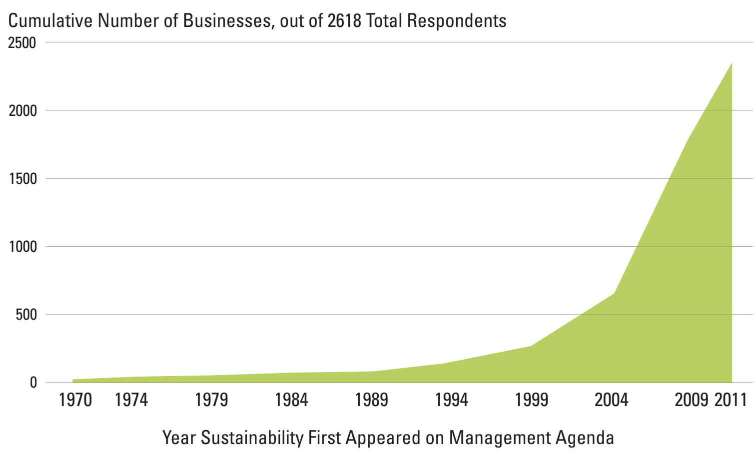
Two months passed and de Wit again approached White, who agreed to meet with HTI officials. They quickly convinced him to back the Kenya project. White then began to cultivate support within the organization. According to White:

> *We had early resistance because the HydroPack did not have big volumes and was not from a big brand. But you know what? Starting small is how many interesting innovations start. Plus, there are huge applications for this technology that could open up markets for us. Some people got this. When I framed the decision in terms of having a responsibility to educate and improve the world, everyone was persuaded.*

In other words, for Eastman, the HydroPack project was initially viewed as a small project with small impact. Only after this small project was discussed more broadly, in terms of East-

THE SUSTAINABILITY MOVEMENT NEARS A TIPPING POINT

Some 70% of respondents who say their companies have put sustainability on the management agenda say they have done so in the past six years — and 20% say it's happened in the past two years.



ABOUT THE RESEARCH

For the third year, *MIT Sloan Management Review*, in partnership with the Boston Consulting Group, conducted a global survey to which more than 4,000 executives and managers responded. The analysis in this article is based on a smaller subsample of 2,874 respondents from commercial enterprises, with respondents from academic, governmental and nonprofit organizations excluded. The respondents' organizations are located around the world, with more than 40% doing business in at least three regions, led by Europe, North America, and Australia/New Zealand. A wide variety of industries are represented. The sample was drawn from a number of sources, including MIT alumni, *MIT Sloan Management Review* subscribers, BCG clients and other interested parties.

In addition to these survey results, we interviewed academic experts and subject matter experts from a number of industries and disciplines to understand the practical issues facing organizations today. Their insights contributed to a richer understanding of the data and provided examples and case studies to illustrate our findings.

As a matter of terminology, we used "sustainability" to cover environmental, economic and societal topics. Respondents had a similar view. We asked respondents "what factors does your organization consider as part of sustainability" and asked them to choose all that applied from a list of options. A clear majority selected economic sustainability (62.1%). Environmental and corporate social responsibility issues, increased emphasis on long-term perspective and employee health and well-being were in the next tier.

man's mission, did it gain support from senior managers.

Some aspects of this story are unremarkable: It's not surprising that managers needed to be persuaded that financing this project was valuable for reasons other than a quick, visible return. But, the fact that they were persuaded at all is much more surprising. We might attribute management's change of mind to White's persuasive powers, but also to something else: seeing the relevance of a company's purpose and mission in a small project.

For many managers, it is difficult to see how the aspirational attributes of a project can trump other considerations when the risks of uncertain returns loom large. Even so, in our third annual Sustainability & Innovation Global Executive Study, jointly produced by a collaboration between *MIT Sloan Management Review* and the Boston Consulting Group, we have evidence that an increasing number of managers and companies are — like the Eastman managers who saw the HydroPack initiative as part of Eastman's mission to educate and improve the world — taking sustainable business practices seriously even when the business case for such practices is less than obvious.

In our survey, we found that more respondents than ever before say their companies are putting sustainability on their management agendas. Our survey this year involved 2,874 managers and executives from 113 countries. (See "About the Research.") According to the respondents, 70% of companies that have placed sustainability on their management agendas have done so in the past six years; 20% have done so in just the past two years. (See "The Sustainability Movement Nears a Tipping Point.") Two-thirds of our respondents said that sustainability was critically important to being competitive in today's marketplace, up from 55% in our 2010 survey. (See "Most Managers Believe a Sustainability Strategy Is a Competitive Necessity.") Moreover, despite a lackluster economy, many companies are increasing their commitments to sustainability initiatives, the opposite of what one would expect if sustainability were simply a luxury afforded by good times. (See "Companies Are Upping Their Sustainability Commitments.")

This rosy picture must be balanced against another set of data. Our survey findings suggest that most companies are struggling to define sustainability in a way that is relevant to their businesses. And while sustainability has made it onto many management agendas, responses indicate it ranks just eighth in importance among other agenda items. Meanwhile, economic growth continues to deplete the planet's stocks of natural resources, despite the efforts of many companies to minimize their impacts through activities such as decreasing their carbon footprints and cultivating closed-loop production systems.

In spite of this mixed story, sustainability is becoming a profitable opportunity for many organizations; about 31% of our respondents say their companies are currently profiting from sustainable business practices. Taken together, the data suggest that the sustainability movement is nearing a tipping point, the point at which a substantial portion of companies not only see the need for sustainable business practices but are also deriving financial benefits from these activities. We describe the distinguishing characteristics of such companies and elaborate the lessons managers should glean from their practices.

Sustainability Is Finding Business

Why is it that so many companies have been placing sustainability on their management agenda in recent years? In the past, corporate communications, branding and regulatory concerns might have been the most straightforward explanation. But none of these completely explains the rise in management interest or the increase in the number of companies that say sustainability is important to how they compete in today's markets.

So many adoption drivers now exist both externally and internally to an organization that the question of whether or not to embrace sustainability is being replaced by another question: How do we do it? Gregory Unruh, a professor of global business at Thunderbird School of Global Management and author of *Earth, Inc.*, writes, "The question I now hear most often from managers … is not 'Why should we be sustainable?' but 'So what do we do?'"[1]

Consider first the external factors, which include regulations, green score cards and other sustainability metrics, media and nongovernmental organizations, climate change science, resource scarcity and consumer demand — to name a few. There are strong indicators that consumer interest in sustainable products has increased in recent years.

"Consumers today have higher expectations that brands deliver sustainable products: sustainably sourced, produced and packaged but remaining competitively priced," says Peggy Ward, director of the enterprise strategy sustainability team at Kimberly-Clark, maker of Kleenex and Huggies, among other popular consumer brands.[2] We've heard comments like Ward's echoed in interviews with executives from other industries. What's more, just in the past six years, consumers have found more ways to express their concerns and have better information about products and corporate behavior, thanks to the evolution of social media tools, such as Facebook, online review sites and search engines — as well as nongovernmental organizations and media that feed information about environmental, societal and financial malfeasance into these new channels.

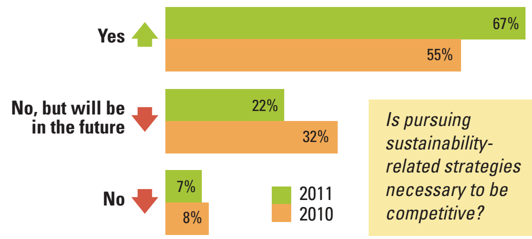
The emergence of green score cards, sustainability rankings and corporate social responsibility metrics during the last decade has prompted many companies to start measuring and tracking their results for all to see. Voluntary participation in these measures has been driven in part by the investor community; in part by technology developments, which have enabled improved capture and synthesis of corporate performance data; and in part by competition. According to Roberta Bowman, senior vice president and chief sustainability officer of Duke Energy:

> *In addition to the more traditional "socially responsible investors," we are finding that some of our mainstream investors are now looking at sustainability performance as an indicator of overall business value. They're acting on the theory that our sustainability measures — our efficiency with resources, our employee retention, etc. — are predictors of overall business profitability.*[3]

Internal drivers may be as influential as external drivers, if not more so. "I would say the internal drivers are 80% responsible for our sustainability efforts," says Bill Morrissey, vice president for environmental sustainability at Clorox. Morrissey cites benefits related to operating costs, revenue growth, brand integrity and employee engagement. Along with these benefits, other internal drivers include leadership that values transparency, effective internal champions, and organizational structures that help embed sustainability into business processes.

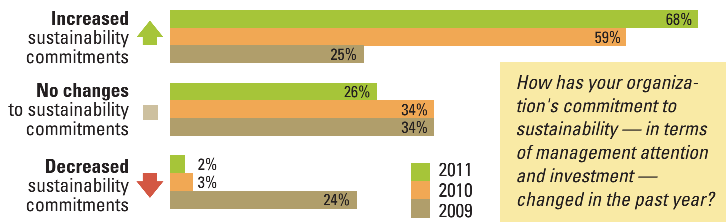
MOST MANAGERS BELIEVE A SUSTAINABILITY STRATEGY IS A COMPETITIVE NECESSITY

Three times as many respondents say that sustainability is critical to being competitive now compared with those who say that it is not critical now but will be important in the future.



COMPANIES ARE UPPING THEIR SUSTAINABILITY COMMITMENTS

Three years of data indicate a striking increase in the levels of time and resources managers are committing to sustainability.



This is the third year in a row in which our interviews with thought leaders and company managers have pointed out the influence of the sustainability agenda on employee engagement, even recruiting. Dave Stangis, vice president of corporate social responsibility and sustainability at Campbell Soup, remarks, "In the workplace, we went from not having specific sustainability objectives in employee performance reviews to integrating clear corporate targets that make CSR a standard component of managers' performance evaluation."

These external and internal drivers may be insufficient to explain the recent strengthening business focus on sustainability. In *The Tipping Point*, Malcolm Gladwell explains why change sometimes happens quickly and unexpectedly.[4] His explanation for such change is that the underlying process operates much like the outbreak of an infectious disease; the term "tipping point" refers to a moment in an epidemic when a virus reaches critical mass.[5] We may be reaching critical mass with companies taking sustainability seriously, but we have not yet achieved a similar critical mass with companies profiting from sustainability.

Who the "Harvesters" Are — and Why They're Profiting

Those companies that are profiting from sustainability are likely to be out in front of both external and internal sustainability drivers. We call this group the "Harvesters."

Respondents who we classified as Harvesters shared one primary characteristic: They all said that sustainability contributed to their organization's profitability. Why are we emphasizing this group, rather than some other group that has, say, high commitment levels to sustainability or has business cases for sustainability or who thinks sustainability is critical to their competitiveness? We believe that the longevity and robustness of an organization's sustainability agenda ultimately turns on how well sustainability is embedded in business processes, and the extent to which that happens turns on whether sustainability adds to profitability over time. Having a commitment, a business case and an ethical stance are insufficient for the long term. Commitments may falter, business cases can fail in execution and belief can be supplanted by other beliefs. Unless sustainability adds to profits over time, a sustainability agenda will likely fail to gain or hold its traction in the enterprise.

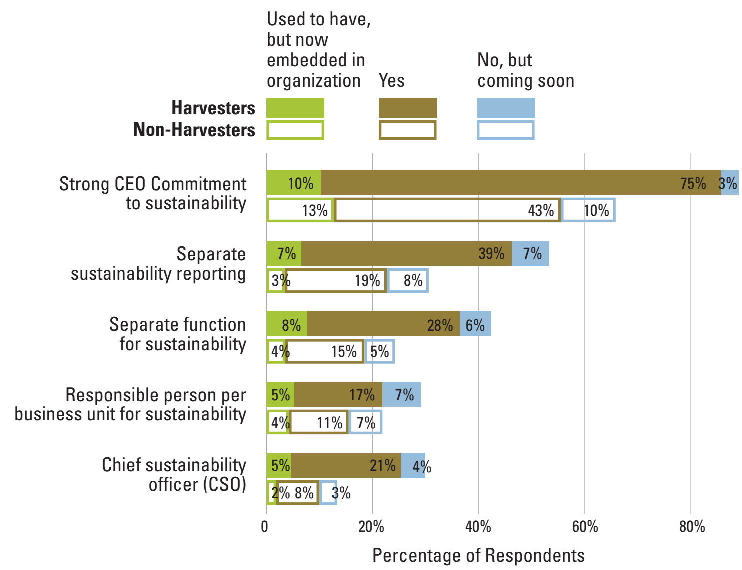
In our 2011 report on sustainability,[6] we identified two groups with different levels of sustainable business activity within their enterprise: Embracers and Cautious Adopters. Embracers had a business case, believed that sustainability was critical to being competitive and had sustainability on their management agenda. The other respondents were grouped into a Cautious Adopters category. This year's data suggest that Harvesters are three times more likely to be Embracers than Cautious Adopters.

A typical Harvester organization looks different from a typical non-Harvester organization on four important dimensions: organizational support, operations, collaboration and willingness to change the organization's business model in response to sustainability-related considerations. Harvesters have a distinctive organizational mind-set and design that supports sustainability. Compared to non-Harvesters, Harvesters are three times as likely to have a business case for sustainability. They are also 50% more likely to have CEO commitment to sustainability, twice as likely to have a separate sustainability reporting process and twice as likely to have a separate function for sustainability. Harvesters are also 50% more likely to have a person responsible for sustainability in each business unit and nearly 2.5 times as likely to have a chief sustainability officer. (See "Harvesters Have Strong Organizational Support.")

Compared to the organizations that other survey respondents are part of, Harvesters are twice as likely to clearly communicate who has responsibility for

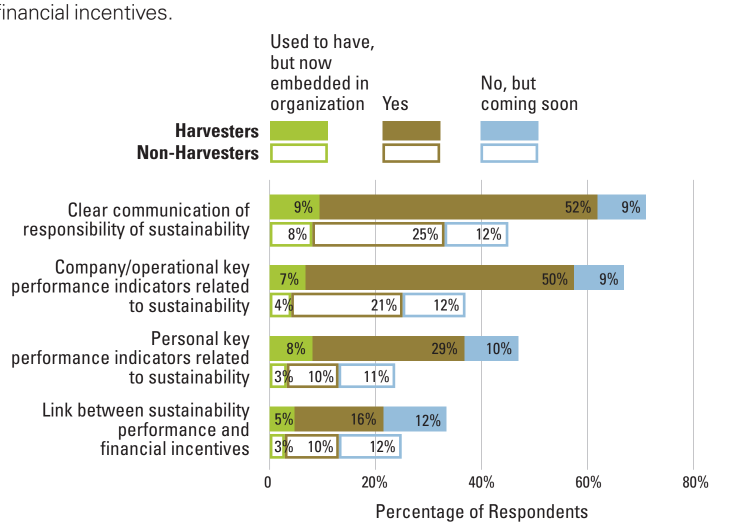
HARVESTERS HAVE STRONG ORGANIZATIONAL SUPPORT

Compared to Non-Harvesters, Harvesters are significantly more likely to have strong CEO commitment to sustainability, a separate sustainability report, a separate sustainability function, business unit focus on sustainability and a chief sustainability officer.



HARVESTERS LINK SUSTAINABILITY, PERFORMANCE AND PROFITS

Harvesters are far ahead of Non-Harvesters when it comes to measuring sustainability-related key performance indicators and connecting sustainability performance with financial incentives.



sustainability, are more than twice as likely to have operational and personal key performance indicators linked to sustainability, and are 60% more likely to link sustainability with financial incentives. Also, Harvesters are more than twice as likely to say that sustainability has increased their collaboration with internal business units across geographies. (See "Harvesters Link Sustainability, Performance and Profits.")

Harvesters and non-Harvesters approach working with external groups in dramatically different ways. Harvesters are more than twice as likely to say that sustainability has increased their collaboration with competitors. Harvesters are also likely to be collaborating more with customers, suppliers, government, local communities and NGOs as a result of sustainability. (See "Sustainable Practices Improve Collaboration.") Eastman's partnership with HTI is a good example of the way that sustainability projects lead to collaboration.

Compared to non-Harvesters, Harvesters are twice as likely to change their business model because of sustainability. Harvesters focus on increased competitive advantage, better innovation, access to new markets and increased margins or market share, whereas non-Harvesters focus more on brand-related concerns. In 2008, Florida Ice & Farm, a century-old Costa Rican food and beverage company — and one of the largest businesses in Central America — began merging its sustainability practices with its business strategy.[7] The reasons: the company's beliefs about changing consumer and government expectations, as well as philanthropic considerations. Some 60% of the company's CEO pay was tied to performance on a score card of financial and nonfinancial measures — so-called triple bottom line indicators. Its balanced score card has attracted the attention of large companies and major players in the beverage sector, many of whom have visited the company to learn from its success. Florida Ice & Farm has become much more efficient in how much water it uses to produce a liter of beverage (the average dropped from 12 liters to 4.9 under CEO Ramón Mendiola Sánchez). Between 2006 and 2010, the company had a compound annual growth rate of 25%.

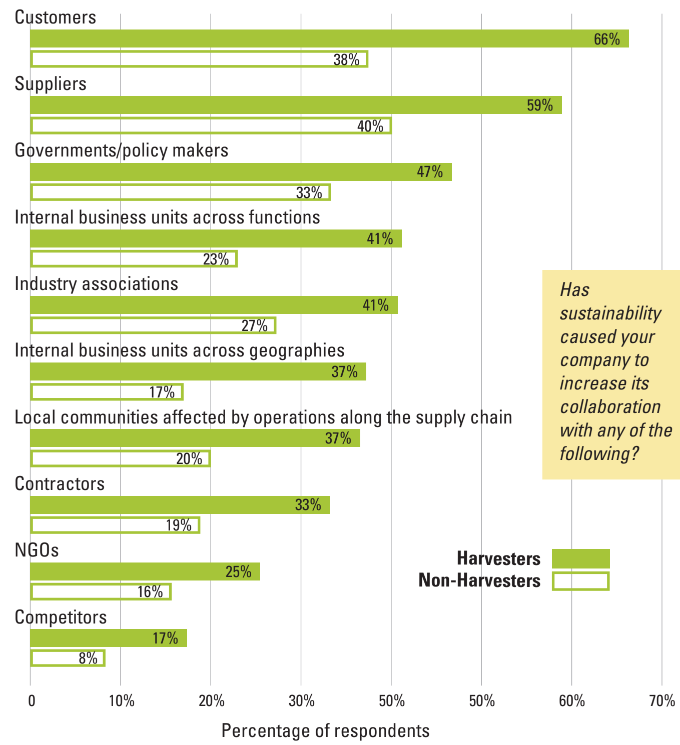
Harvesters say that sustainability contributes to their profitability, but what this means for any given Harvester varies. Some Harvesters may exact both short-term profits from sustainability initiatives by, for example, becoming more energy efficient while also deriving longer-term profitability from sustainability-driven innovation that opens new markets or expands pre-existing ones.

The Challenges Ahead

While most survey respondents believe sustainability is critically important to competing in today's markets, companies also tell us that it can take years for an organization to effectively take advantage of

SUSTAINABLE PRACTICES IMPROVE COLLABORATION

Profiting from sustainability goes hand-in-hand with greater collaboration among many groups both internal and external to the organization.



sustainability-related opportunities. Part of the reason simply has to do with figuring out where the opportunities are. Establishing data capture methods, processes for sharing information, appropriate reporting systems and, more generally, making the transition to greater information transparency takes time. Identifying cost savings in operations may sound easy, but it often means adopting an entirely new perspective that requires time and money.

When Starbucks re-evaluated its options to develop a recyclable coffee cup, it brought in Peter Senge from MIT's Sloan School of Management to help develop a full system assessment of how materials for the cup were sourced to the way the cup was thrown away. Representatives from the entire supply chain as well as local government officials were involved in the process. The results of the analysis and subsequent conversations with all players generated opportunities that would have been impossible to discover had "we just looked upstream to our vendors to figure it out," says Ben Packard, vice president of global responsibility for Starbucks. Starbucks subsequently hosted several coffee cup summits at its headquarters and at MIT, bringing together competitors, packagers, recyclers and other industry participants to discuss how to improve the environmental impact of the billions of coffee cups produced and consumed globally each year.[8]

Many organizations in our survey have tried, but failed, to build a business case for sustainability. Cornell University professor Stuart L. Hart explains the challenge:

> *It comes down to a question of organizational design and will. We need to create new commercial models, new business models in underserved space with small, distributed point of use distributed technologies, which don't fit the current business model, current culture or traditional investment horizons. It requires a different investment approach. It has to be protected.*
>
> *There are some senior managers in large multinationals who understand that not only is this a big opportunity, but it's going to become a competitive necessity. People in the country organizations see it; managers of businesses in the emerging market countries can see it. They're trying to make the case. They're trying to sell it upward. But they're told, no, sorry, you're paid to sell our current products in India or China. Get back to work. Some of the more imaginative business leaders in those countries are the ones who decide they're just going to do this on their own come hell or high water. It really comes down to a question of how do you make this more systemic? How do you build it in, make it part of the DNA of what large corporations are designed to do? And that just doesn't exist today.*

What would it mean for companies to make sustainability part of their DNA? Does the promise of sustainability really demand such radical change? Do companies typically take on such transformations because of opportunity or necessity? While the answers to these questions are a matter of debate, our data demonstrate that companies have been adopting sustainability initiatives at a significant rate in recent years, whether or not they can see a clear path to profit or competitive advantage from them. For any given company, the tipping point for adopting sustainable practices may be precisely where promise and necessity intersect.

David Kiron *is executive editor of* **MIT Sloan Management Review***'s Innovation Hubs.* ***Nina Kruschwitz*** *is* **MIT Sloan Management Review***'s managing editor and special projects manager.* ***Knut Haanaes*** *is a partner and managing director of the Boston Consulting Group as well as the global leader of BCG's Sustainability Initiative.* ***Ingrid von Streng Velken*** *is the global manager of BCG's Sustainability Initiative. Comment on this article at http://sloanreview.mit.edu/x/53213, or contact the authors at smrfeedback@mit.edu. Look for the full report in early February 2012 at http://sloanreview.mit.edu/sustainability.*

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