McKinsey Global Survey results:

How companies manage sustainability

Most companies are not actively managing sustainability, even though executives think it's important to a variety of corporate activities. Those that do are reaping benefits for themselves and for society.

More than 50 percent of executives consider sustainability—the management of environmental, social, and governance issues—"very" or "extremely" important in a wide range of areas, including new-product development, reputation building, and overall corporate strategy, according to the latest McKinsey survey.[1] Yet companies are not taking a proactive approach to managing sustainability: only around 30 percent of executives say their companies actively seek opportunities to invest in sustainability or embed it in their business practices, for example.

This survey explored how companies define sustainability, how they manage it, why they engage in activities related to sustainability, and how they assess as well as communicate this engagement.

Companies are defined as being most engaged with sustainability if their executives say that sustainability is a top-three priority in their CEOs' agendas, that it is formally embedded in business practices, and that their companies are "extremely" or "very effective" at managing it.[2] These companies are much likelier than others to reap value in the form of reputation building, cost savings, and growth opportunities. Energy companies, not surprisingly, also take a more active approach.

[1] The survey was conducted in February 2010 and received responses from 1,946 executives representing a wide range of industries and regions.

[2] Energy companies, which are overall more engaged in sustainability activities than are companies in other industries (likely as a result of potential regulation and natural-resource constraints), were excluded from this group.

Jean-François Martin

Why companies engage in sustainability

One potential reason so many companies don't actively address sustainability despite the attention paid to it by the media and some consumers and investors is that many have no clear definition of it. Overall, 20 percent of executives say their companies don't. Among those that do, the definition varies: 55 percent define sustainability as the management of issues related to the environment (for example, greenhouse gas emissions, energy efficiency, waste management, green-product development, and water conservation). In addition, 48 percent say it includes the management of governance issues (such as complying with regulations, maintaining ethical practices, and meeting accepted industry standards), and 41 percent say it includes the management of social issues (for instance, working conditions and labor standards). Fifty-six percent of all the respondents define sustainability in two or more ways.

Even with this range of definitions, most respondents see sustainability as creating real value: 76 percent of executives say sustainability contributes positively to shareholder value in the long term, and 50 percent see short-term value creation.

The difference in views on short- and long-term value creation may be explained in part by the fact that building reputation is in a class of its own when compared with other, more immediately financial reasons for engagement such as alignment with the company's business goals or improving operational efficiency. Indeed, 72 percent of respondents say considering sustainability is "extremely" or "very important" for managing corporate reputation and brands. In addition, 55 percent agree that investment in sustainability helps their companies build reputation, and 36 percent see building reputation as a top reason for addressing sustainability issues (Exhibit 1).

Given that reasoning, it makes sense that most respondents report their companies incorporate sustainability in reputation-building efforts. But companies consider sustainability in a wide range of other business activities as well (Exhibit 2). Around 60 percent consider sustainability important to overall corporate strategy, for example.

Executives in business-to-business companies are likelier than their counterparts in consumer-facing companies to seek new growth opportunities through sustainability activities (20 percent, versus 14 percent).

Exhibit 1

Building reputation

% of respondents[1]

Top reasons for addressing sustainability issues	Total, n = 1,749	By type of company: Consumer, n = 431	By type of company: Business-to-business, n = 791
Maintaining or improving corporate reputation	36	42	33
Alignment with company's business goals	21	17	23
Improving operational efficiency and lowering costs	19	20	20
Meeting consumers' expectations	19	21	18
New growth opportunities (eg, new markets, products)	17	14	20
Strengthening competitive position	17	20	17
Leadership's personal interest	14	10	15
Regulatory risk	14	17	14
Attracting, motivating, and retaining talented employees	11	7	13
Meeting the expectations of distributors, retailers, and others	5	7	5
Pressure from nongovernmental organizations (NGOs)	3	4	1

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

Given sustainability's importance, it's surprising that only 27 percent of respondents say their CEOs or other C-level executives run their companies' sustainability initiatives on a day-to-day basis.[3] Thirty-one percent say business units or functional managers take on this responsibility, and 25 percent say their corporate social responsibility departments do so.

[3] Also surprising, 11 percent of respondents say "no one" coordinates initiatives on a daily basis, and 5 percent are unsure.

Companies where sustainability is a top-three priority on the CEOs' agendas are likelier to pursue sustainability due to alignment with business goals (38 percent) than for building reputation (27 percent).

Exhibit 2

Where sustainability matters

% of respondents who consider sustainability issues 'very/extremely important' in given area, n = 1,749

		By industry				
	Total	**Manufacturing**	**Energy**	**Financial**	**Professional services**	**High tech/ telecom**
Managing corporate reputation, brands	72	79	78	70	70	63
Overall corporate strategy	60	64	69	60	58	41
Marketing of products/services	59	68	59	55	54	53
Developing new products/services	57	72	65	48	49	54
Developing regulatory strategy	53	65	74	48	41	55
Managing internal operations	50	54	51	44	46	52
Planning investments	48	52	73	41	39	44
Purchasing, supply chain management	43	52	44	34	36	42
Attracting and retaining talent	39	39	34	35	43	31

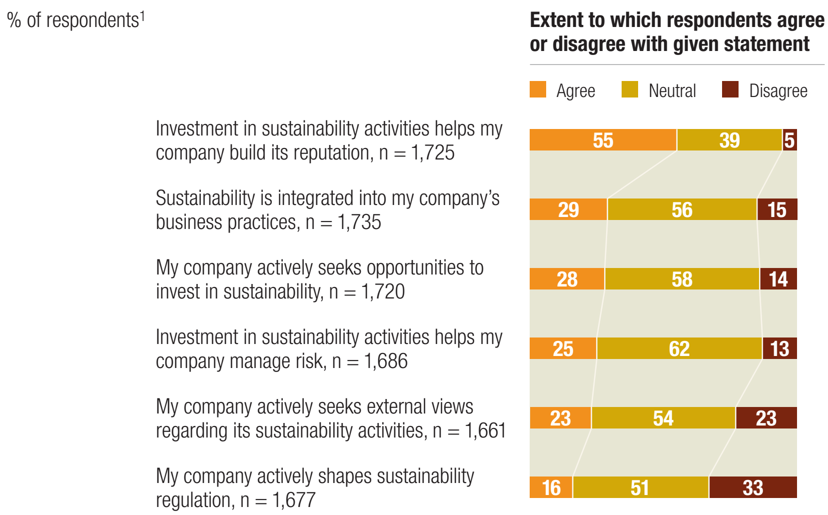
Uneven management efforts

Despite sustainability's importance to various corporate activities, only a quarter of executives say it's a top-three priority on their CEOs' agendas. The lack of weight in leadership's top agenda shows in the relatively small number of activities companies actually pursue related to sustainability: only 28 percent agree that their companies actively seek opportunities to invest in sustainability, 29 percent indicate that sustainability is integrated into their companies' business practices, and a mere 16 percent say their companies actively shape relevant regulation (Exhibit 3).

By contrast, senior executives in the energy industry take an active approach to managing sustainability, likely because of the potential for regulation and increasing natural-resource constraints. Indeed, 10 percent of energy executives say addressing sustainability is the top priority on their CEOs' agendas (versus 3 percent overall), and 31 percent say it's a top-three priority (versus 22 percent overall). Further, energy executives are much likelier than others to be active in seeking opportunities to invest in sustainability (40 percent versus 28 percent), to integrate it into their companies' business practices (43 percent versus 29 percent), and to shape regulation actively (29 percent versus 16 percent).

Exhibit 3

Little proactive management

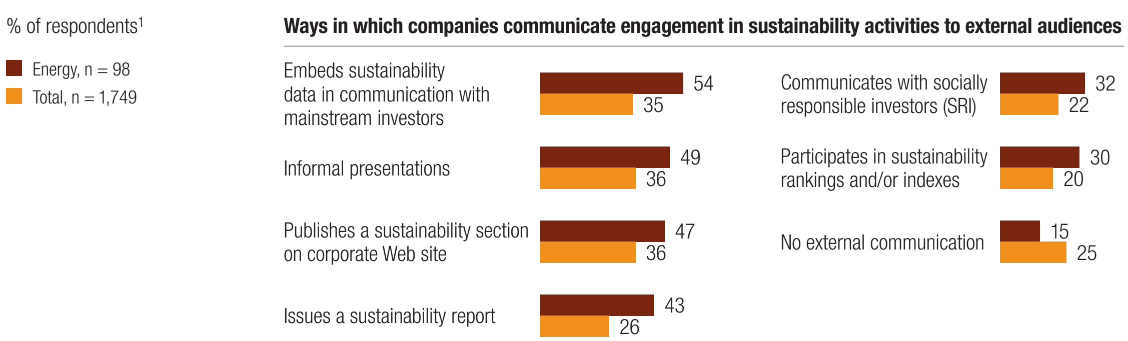


[1] Excludes respondents who answered "don't know"; figures may not sum to 100%, because of rounding.

Except among energy companies, reporting practices are relatively poor, considering the impact executives say sustainability has on business. Particularly in light of the role of sustainability in reputation-building efforts, for example, it's surprising that companies do not take an active approach in communicating their initiatives externally (Exhibit 4). Indeed, 62 percent of respondents say

Exhibit 4

How companies communicate



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

their companies do not report sustainability metrics to investors or are unaware of their companies' sustainability-reporting practices—even though more than 50 percent keep track of the value created by sustainability in terms of reputation building and cost savings (Exhibit 5).

The picture is again different for energy executives: 74 percent of energy executives incorporate sustainability when developing their companies' regulatory strategies, compared with 53 percent of respondents overall. Similarly, 54 percent of respondents in the energy industry say their companies embed sustainability data in communications with investors, compared with 35 percent overall.

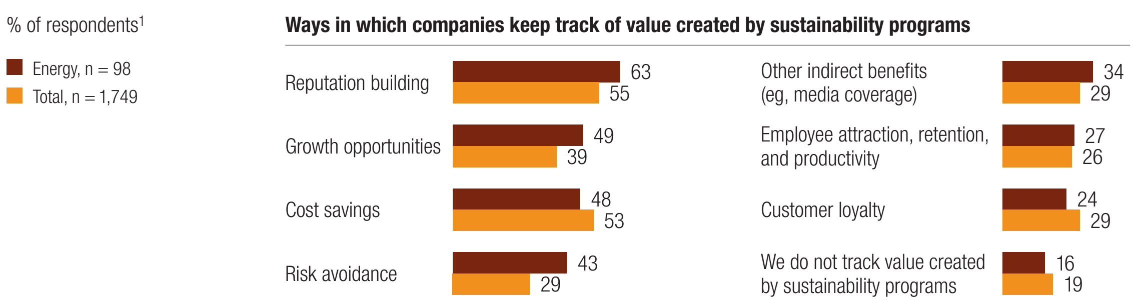
What the proactive do differently

Just over 6 percent of executives say that sustainability is a top-three priority in their CEOs' agendas, that it is formally embedded in business practices, and that their companies are "extremely" or "very effective" at managing it. These engaged companies actively seek opportunities to invest in sustainability: 88 percent of the respondents in this group say so, compared with 23 percent of all others (Exhibit 6). Further, a strong majority consider sustainability important in a wide range of areas: developing and marketing products and services, planning investments, managing internal operations, developing regulatory strategy, managing corporate reputation and brands, and overall corporate strategy.

Other findings indicate how much sustainability is a part of the fabric of these companies. Their executives, for instance, are more aware than executives at other companies of the metrics their companies track. For example, 84 percent of respondents at engaged companies are aware of whether their companies measure their carbon footprint, compared with 40 percent of respondents at less engaged companies. More importantly, among the group that is aware of what's being tracked, the engaged companies are far more likely to be tracking relevant sustainability indicators such as waste, energy and water use, and labor standards for their suppliers and consumers.

Exhibit 5

Keeping track of sustainability's impact



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

Exhibit 6

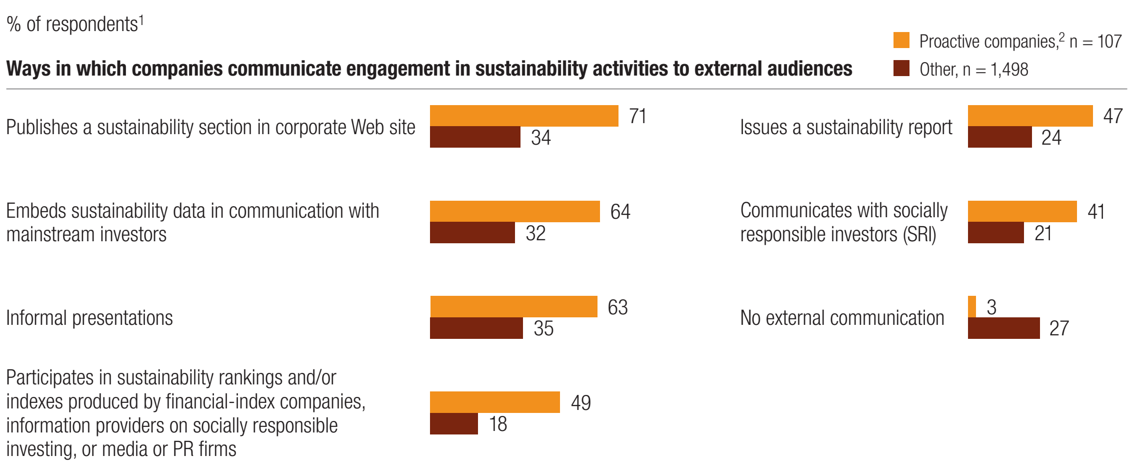
Activities and results

[1] Excludes energy executives.
[2] Companies where executives say sustainability is a top-3 priority in their CEOs' agendas, formally embedded in business practices, and their companies are "extremely/very effective" at managing it.

In addition, these engaged companies do more than others to communicate externally the impact of their sustainability programs (Exhibit 7).

Exhibit 7

Getting the word out



[1] Excludes energy executives; respondents who answered "other" or "don't know" are not shown.
[2] Companies where executives say sustainability is a top-3 priority in their CEOs' agendas, formally embedded in business practices, and their companies are "extremely/very effective" at managing it.

Dealing with regulation

Regulation, particularly environmental regulation, can have a very strong effect on companies' sustainability activities. However, only about 35 percent of executives say their companies have quantified the potential impact of environmental and social regulation on their businesses; only 40 percent feel prepared to deal with regulation in the next three to five years and are personally confident about handling climate change issues.

Failure to reach an agreement in the recent Copenhagen UN Climate Change Conference was seen by respondents to this survey as twice as likely to increase uncertainty (30 percent) related to climate change regulation as to decrease it (15 percent); 55 percent say they saw no difference. And while 53 percent say the talks had no direct effect on their companies' sustainability strategies, many expect to collaborate more with some group as a result of the failure to reach an agreement. Indeed, 19 percent of the respondents say they are now planning to work with more partners such as nongovernmental organizations (NGOs) and other companies, and another 12 percent say they plan to work more with government.

Looking ahead

- Seventy-six percent of executives say engaging in sustainability contributes positively to shareholder value in the long term. Companies that manage sustainability proactively are much likelier to seek and find value creation opportunities.

- Companies where sustainability is a top item in their CEOs' agendas are twice as likely as others to integrate sustainability into their companies' business practices. This suggests that senior executives who want to reap the benefits of incorporating sustainability into their companies' overall strategies must take an active role in the effort.

- A first step to gain recognition and improve the impact of sustainability activities could be to communicate better with investors and other stakeholders. ☐

Contributors to the development and analysis of this survey include **Sheila Bonini,** a consultant in McKinsey's Silicon Valley office, **Stephan Görner,** a principal in the Sydney office, and **Alissa Jones,** a consultant in the Copenhagen office. They would like to acknowledge the contributions of their colleague Michaela Ballek.