The 2011 CEO Imperative: Sustainability-Driven Growth

A just-released survey of 704 CEOs by The Conference Board reveals striking results. Achieving 2011 top-line growth from developing or expanding the portfolio of sustainable products and services is their number one strategy globally.

Over 700 CEOs around the world have declared "top-line growth" as their number one 2011 challenge – and their number one strategy for delivering that growth is *"to develop or expand their sustainable products and services portfolio."* Wow! It is time to take note.

However, the CEO message and dialogue about sustainability are not consistent globally. In particular, U.S. CEOs do not view sustainability as a 2011 growth strategy nearly as much as their business counterparts in the rest of the world do.

These are the striking conclusions of a recently released research report – *The Conference Board CEO Challenge™ 2011*.*

Key Findings

Between November 2010 and January 2011, CEOs around the world were asked to rank the top challenges they anticipated their companies would face in the coming year. The Conference Board has been conducting this survey annually since 1999.

By a factor of two to one, "Business Growth" ranked highest. The next three highest-ranked challenges were: Talent, Cost Optimization, and Innovation. Viewed from the perspective of the past few years, the key conclusion is that after years of hunkering down in the face of the recent "great recession," CEOs are redirecting their companies toward growth.

Where did Sustainability rank? Far down the list at #8 – though just behind Customer Relationships (#7) and ahead of International Expansion (#9) and Investor Relations (#10).

The most striking conclusion: When asked what strategy (of 13 possible strategies) the CEOs planned to use to deliver Business Growth, the number one strategy globally was to *"develop or expand a sustainable products/services portfolio."*

Next on the list of strategies to deliver growth were to: "introduce innovations and new value propositions" and "enter or expand into emerging markets."

Strategies for Delivering Growth – Striking Regional Variation

While CEOs globally rank Business Growth as the "most important" issue they face in 2011, the strategies they cite for delivering such growth are notably different by geography. The top three strategies (in order within each region) for delivering growth in 2011 are as follows:

- **Asia** – Sustainable products/services; mergers and acquisitions; improve price/quality ratio
- **Europe** – Enter or expand into emerging markets; sustainable products/services *tied with* new value propositions
- **United States** – New value propositions; enter/expand into new customer/client segments; enter or expand into emerging markets (Sustainable products/services was ranked #7 by U.S. CEOs.)

These regional variations are notable and, as described below, they have particular implications for U.S. multinationals.

However, the key point is this: CEOs globally agree on sustainable products and services as the topmost growth strategy.

What's Going on Here?

How did sustainable products, services, and solutions leap to the top spot in the CEO's growth initiative globally? Momentum has been building and the year 2010 saw a sharp increase in how companies approach the top-line growth aspect of sustainability. A few examples include:

- **Cisco** ramped up its campaign to own "smart cities" globally – a $200 billion market.

*A copy of the survey is available from The Conference Board at www.conferenceboard.org.

- **GE** reported $70 billion in *Ecomagination* sales (2005-2009).
- **Philips** Green Products generated 31% of total revenues.
- **P&G** is on track for $50 billion in cumulative sustainable product sales (2007-2012).
- **Samsung** invested $21 billion in green technology.
- **Siemens'** Environmental Portfolio of products generated $28 billion.

Implications for U.S. Multinationals

U.S. CEOs have two things in common with their counterparts in other regions: they rank business growth as the top priority and they tell us (in our interactions quarterly with over 50 large U.S. corporations) that growth will come primarily from Asia and emerging markets.

This suggests that emerging markets will be the battleground where sustainability questions clash with growth imperatives. Globally, CEOs are investing to grow in emerging markets. However, U.S. CEOs place a far lower priority on sustainable products and services in those markets than their local peers do.

What is the advice to executives responsible for sustainability in U.S. companies as they discuss this growth factor with the C-suite leaders?

First, we recommend having *two separate sustainability conversations* with C-suite executives:

- **"Do Less Bad"** – The conventional way CEOs have viewed sustainability is all about *reducing*: cutting emissions, waste, accidents, injuries, illnesses, fines and penalties, process inefficiencies, and the like. It is about doing less bad. Based on our experience, we suspect this view of sustainability is what CEOs globally had in mind when they ranked sustainability overall #8 of #10 among 2011 challenges.

  The "do less bad" aspect of sustainability is absolutely essential, but it is only half of the equation. Have a separate conversation with the CEO and business leaders charged with growing top-line revenue. That is exciting!

- **"Create Growth"** – The newer, future-directed conversation is all about *growing* top-line revenues. While some companies have been active with green products and services for over a decade, the momentum has been building rapidly in recent years.

Second, *use compelling data*. For years, many executives have tried to discuss "green growth" opportunities with CEOs and boards. Today, the data from The Conference Board CEO Challenge™ 2011 provide a compelling platform for discussion with executives and teams charged with growing top-line revenue. Use this data – and support it with concrete benchmark data about peer company actions such as those noted above.

Conclusion

Sustainability is all about developing and selling competitively priced products, services, and solutions to all of the world's people. *At the same time*, sustainability is about dramatically reducing negative environmental and social impacts throughout the value chain – and working toward positive outcomes.

CEOs participating in The Conference Board survey clearly understand both aspects of sustainability embodied in this definition. However, as a group, U.S. CEOs are learning to do what has already taken place among their counterparts in Asia, Europe, and the rest of the world.

As many companies begin their 2012 strategic planning process, they would be well advised to apply the same rigor and resources to top-line sustainability growth opportunities as they do to other sources of growth. This means robust scenario planning, comprehensive market analysis, and detailed benchmarking – all key aspects of a time-tested strategy development process.

About the Author

Gib Hedstrom has 25 years of experience in helping boards of directors, CEOs, and senior executives manage risk and reap opportunities associated with sustainability. After 20 years leading Arthur D. Little's environmental auditing, strategy, and governance work, he founded Hedstrom Associates in 2004.