Corporate Sustainability 2012: Some Standout Companies… But Most Mired in Rampant Incrementalism

The breakthrough moment comes when companies consumed with *being less bad* figure out that *this is actually about revenue growth.*

The year 2012 should have been a breakthrough year for the environment. London rolled out the greenest-ever Olympic Games…we celebrated the 20th anniversary of the first Earth Summit (Rio +20)…and we saw the 50th anniversary of Rachel Carson's "Silent Spring."

But no! A few standout companies like **Unilever**, **Marks & Spencer**, **Nike**, **Ricoh**, and **DuPont** are aggressively driving sustainable growth. Smart followers like **GE**, **Google**, **HP**, **Sony**, **Microsoft**, and others are on track to be tomorrow's sustainability leaders. But most companies (~75 percent by our count) muddle along – making incremental improvements. That's it.

And here's the rub. Most CEOs say they *have* embedded sustainability into their organizations. ***Nothing could be further from the truth.***

A Look Back and Ahead…

These are tough times: the U.S. and European debt crises, the third global food crunch in the past five years, the U.S. drought and forest fires, the extraordinary increases in the melting rates of arctic ice fields, and extreme poverty. While U.S. corporations compete to meet and exceed the customers' expectations, communities in their supply chains around the world grow restless as they experience water scarcity, famine, floods, and other environmental and social degradation in critical areas across continents. (And then many communities and companies felt the impact of Hurricane Sandy!)

Is there a disconnect? Absolutely. Tomorrow's customers will care about the health and fitness of how companies develop and deliver products "from farm to fork." These issues matter.

Corporate Sustainability Performance... 2012 in Perspective

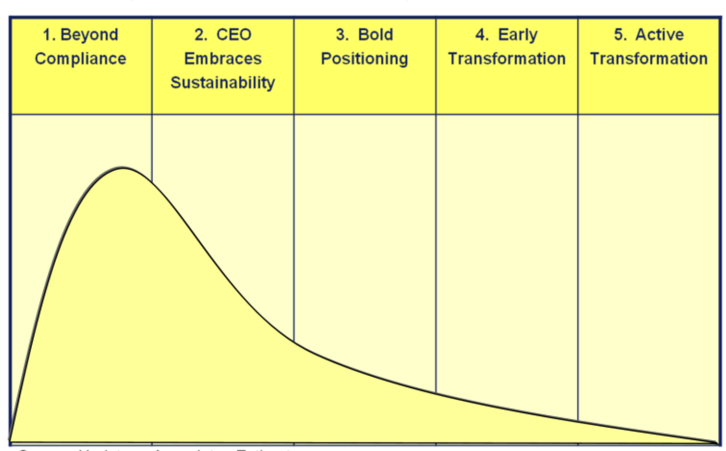
In working with companies globally, our experience at Hedstrom Associates suggests that less than 25 percent of CEOs have embedded sustainability into their corporate DNA. The vast majority of companies remain stuck in what strategist Robert Shelton[1] has called "rampant incrementalism" as they work toward sustainability by taking small steps…slowly.

We have tracked corporate progress toward sustainability for 15 years. Progress is slow, as depicted in Figure 1. Yet two emerging criteria separate true sustainability leaders from other companies that focus on "rampant incrementalism" and simply "doing less bad." The differentiating criteria include: (1) *driving to zero impact*, and (2) *changing business models to grow green revenue*.

Stage 1. Beyond Compliance – Most companies (~45 percent) remain in Stage 1. They conserve energy, reduce waste, and address safety incidents and human rights abuses. However, they do not yet grasp the profound changes they will have to address in the next few years. **Apple**, with its environmental and human rights issues in China, is a classic Stage 1 company. Its entire sustainability focus seems to be just trying to do less bad.

Stage 2. Smart Followers – The CEOs of Stage 2 companies believe in the importance of sustainability. They establish reasonably tough environmental and

Figure 1: Corporate Sustainability Performance 2012



Source: Hedstrom Associates Estimates

[1] Robert Shelton, *Making Innovation Work*. http://www.amazon.com/Making-Innovation-Work-Manage-Measure/dp/8131703010

social responsibility goals and they issue strong sustainability reports. But they do not change their businesses. Most of the companies rated highly by the majority of sustainability ratings (Dow Jones Sustainability Index, Newsweek, etc.) fall into Stage 2.

Stage 3. Tomorrow's Sustainability Leaders – These are truly companies to watch. Stage 3 companies set very bold positioning goals that break ranks with industry peers. Increasingly, that means *goals of zero*:

- Zero carbon, waste, toxics, and species reduction on the environmental side
- Zero human rights abuses, child labor, and diseases on the social side
- Zero corruption and tax evasion on the business side

HP unveiled its Net-Zero Energy Data Center. **Sony** is on track to meet its 2050 goal of a zero carbon footprint. **Microsoft** vowed to be carbon neutral in fiscal year 2013. **Toshiba** earned a designation as a "carbon neutral business" by The CarbonNeutral Company.

Tomorrow's leaders are investing in green growth. **GE** calls "environmental performance" a key driver for business; it has 130 products and solutions in its $85 billion (cumulative sales through 2010) *Ecomagination* portfolio. GE and **Unilever** are among about 300 companies that are backing a price on carbon in Australia. **Siemens** launched a global competition to find technology solutions to sustainability issues.

These companies are starting to realign their business models to sustainability drivers; but they have yet boldly to declare that realignment across the corporation.

Stage 4. Today's Sustainability Leaders. Ahead of others, Stage 4 companies aggressively invest in a fundamental business transformation by selling businesses that have a high footprint per income stream and investing in businesses that are the opposite (a low footprint).

Unilever is a premier example; CEO Paul Polman plans to *double sales revenue while cutting the company's environmental footprint in half*. **Nike** is launching a new supply-chain manufacturing index that places sustainable practices "on equal footing" with the traditional measures of quality, cost, and delivery. Nike also joined forces with NASA to launch a global zero waste challenge, seeking game-changing innovations that can revolutionize how the planet deals with its waste. **Google** has invested nearly $1 billion in renewable energy; they are examining what information will be most valuable in the future and exploring intelligent power grids. More than one-third of **Marks & Spencer** products sold boast some form of sustainability credential. That is greater than a billion items a year.

Taking Steps Forward in 2013…

Some of this news is not new. In our experience, many senior executives "get this." However, what stops them is that the pathways toward sustainability seem so huge, complex, and challenging. So what to do?

Our advice is to answer these three questions:

- *Which stage are we in?* Be honest! Where are we really?
- *Where do our customers want us to be?* Let's answer this question in two ways: our customers today, and those we want to attract tomorrow.
- *How do we get there?* Could we be more successful – more lean, fit, and resilient as a company – if we moved to the next stage? What critical few steps should we take in 2013 that begin to get us there?

You will not need help starting that conversation – but you may quickly find a roadblock – when it comes to putting sustainability at the heart of your business strategies. The breakthrough moment arrives when companies consumed with *being less bad* figure out *this is actually about revenue growth.*

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 the environment and sustainability. After 20 years leading Arthur D. Little's environmental auditing, strategy, and governance work – and co-leading the company's sustainability initiative – he founded Hedstrom Associates in 2004.

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