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Sustainability's deepening imprint

Companies are more active than ever in pursuing sustainability to align with values and engage stakeholders, a new survey shows. To see financial returns, though, integrating sustainability into core functions is key.

As environmental, social, and governance issues have become ever more important influencers of customer and employee expectations, organizations have tightened their embrace of the sustainability programs that address those issues. According to the latest McKinsey Global Survey on the topic,[1] companies are increasingly formalizing the way they govern sustainability programs, as well as elevating the importance of diversity and inclusion.[2] And a larger share of respondents than ever before say the top reason for implementing a sustainability agenda is better alignment between an organization's practices and its goals, missions, or values.

The results also shed light on how companies are deploying technologies to manage and support their sustainability agendas. For example, companies have greatly increased their use of both familiar tools, such as energy-efficient equipment, and more innovative ones, such as digital platforms. Despite these advances, many organizations still struggle to capture financial value from their sustainability efforts. Integrating sustainability into one or more core business functions, for instance, is a practice that can help. The integration of sustainability into functional work doubles the likelihood that a company will report financial value from these efforts.

Deeper engagement with sustainability as key issues and stakeholders evolve

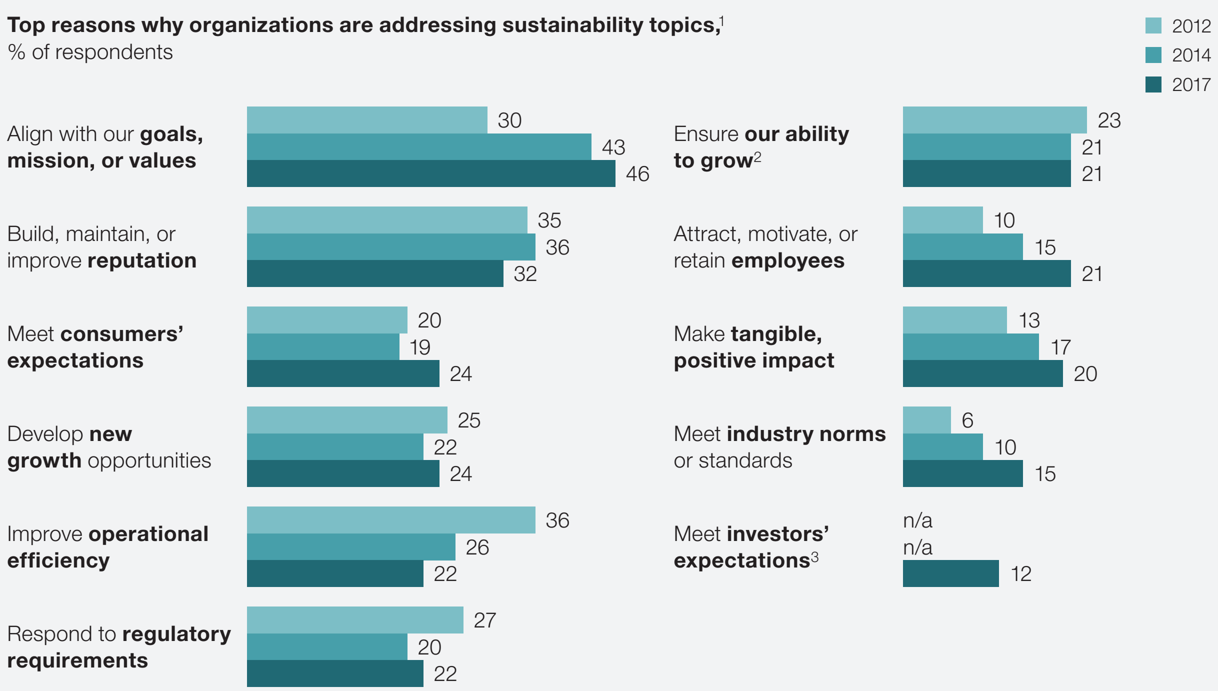
Nearly six in ten respondents say that their organizations are more engaged with sustainability than they were two years ago—and just 9 percent that engagement has declined. In some industries, the shares reporting greater engagement are even larger: more than 80 percent of respondents in consumer packaged goods and three-quarters of those in infrastructure, for example. Respondents also report that their organizations have increased their formal governance of sustainability: 70 percent say their companies have some form of governance in place, compared with 56 percent in 2014. What's more, an increasing share of respondents (16 percent, up from 12 percent previously) now report that their companies have a board-level committee dedicated to sustainability issues.

When asked about their companies' top reasons for addressing sustainability, respondents most often cite alignment with the organization's own goals, mission, and values. The results also suggest that some stakeholders are becoming more important. Meeting consumer expectations is now among the top five reasons, and the share citing the attraction, motivation, or retention of employees also grew since 2014 (Exhibit 1).

Exhibit 1

The opinions of consumers and employees are increasingly cited as top reasons why organizations address sustainability.

Top reasons why organizations are addressing sustainability topics,[1]
% of respondents



[1] Out of 14 reasons that were presented as answer choices. In 2012, n = 4,145; in 2014, n = 2,905; and in 2017, n = 2,422.
[2] In 2012 and in 2014, choice was "Strengthen competitive positioning (eg, securing essential inputs to production, responding to competitive pressure)."
[3] "Meet investors' expectations" was not offered as an answer choice in 2012 and in 2014.

Exhibit 2 **The sustainability topics that matter most to businesses vary by industry.**

Sustainability topics that are most important to organizations,[1]
% of respondents, top 3 by industry

<50 | 50–60 | >60

Topic	Total	Automotive and assembly	Chemicals	Consumer packaged goods	Electric power and natural gas	Financial services	High tech	Metals and mining	Oil and gas	Retail
Information security	44	49				60	63			
Energy efficiency	36	53	59		68			51	67	
Economic development	35					46				45
Diversity and inclusion	34					46	35			
Design of products and/or services	33	56		43			36			58
Waste management	28		48	62				58	31	48
Bribery and corruption	26									
Renewable energy	21				62					
Human rights and labor issues	19									
Greenhouse-gas emissions	17				50				37	
Water management[2]	17		32	43				41		

[1] Out of 16 topics that were presented as answer choices. Total n = 2,771. For automotive and assembly, n = 169; for chemicals, n= 93; for consumer packaged goods, n = 100; for electric power and natural gas, n = 136; for financial services, n = 350; for high tech, n = 224; for metals and mining, n = 78; for oil and gas, n = 78; and for retail, n = 91.
[2] For example, water scarcity, quality, sanitation.

The sustainability topics that matter most to businesses vary across industries (Exhibit 2). Respondents cite diversity and inclusion among the top five most important topics, and it is a top three issue in financial services and high tech. Five years ago, when respondents were asked which issues would be most important by now, renewable energy and waste management topped the list. But relative to other topics, renewable energy has fallen in importance over the same period—during which installations of renewable-energy sources also increased.[3] Waste management, too, is no longer among the top five topics that matter most to respondents' organizations.

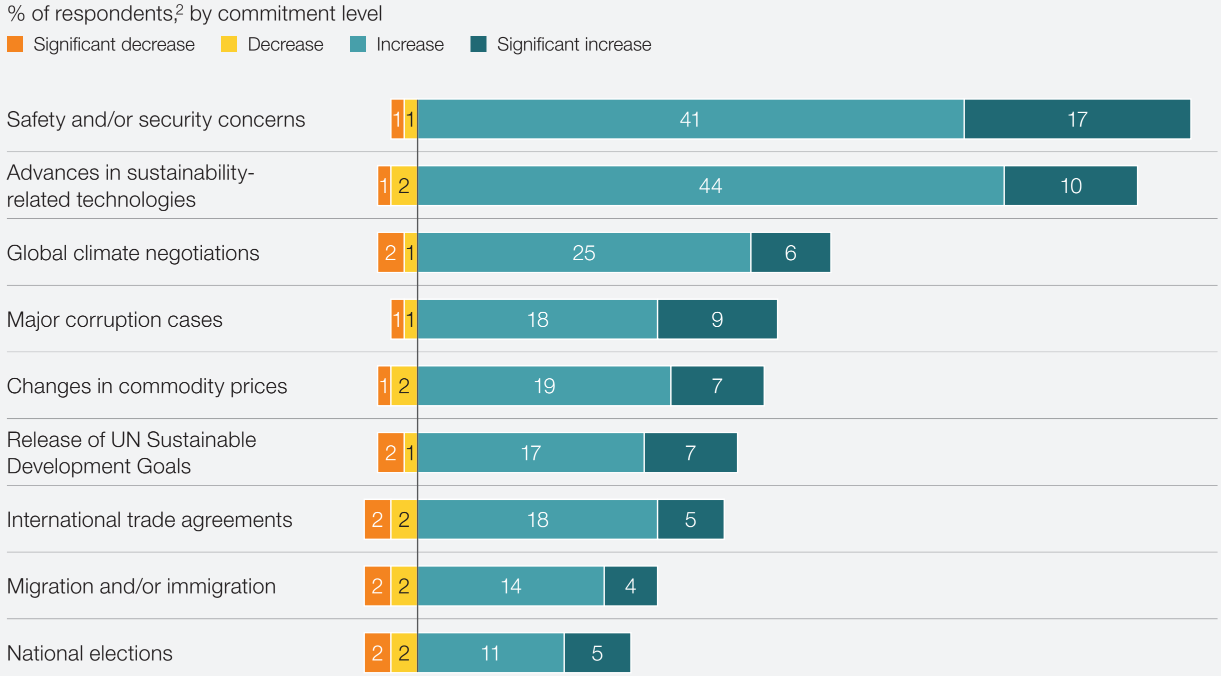
Technology's growing role

This year, the survey also looked at the influence of key trends or events on the organizations' commitment to sustainability. Respondents indicate that advances in sustainability-related technologies, as well as safety and security concerns, are the top reasons these organizations have increased their commitment. Other events, such as national elections, the release of UN Sustainability Development Goals, and global climate negotiations have had less influence (Exhibit 3).

Exhibit 3

Safety concerns and technological advances are the top reasons for a growing commitment to sustainability.

Cause of change in organizations' commitment to sustainability, past 2 years,[1]
% of respondents,[2] by commitment level



[1] Total n= 2,422.
[2] Respondents who answered "no change" or "don't know" are not shown.

Since our last survey, the cost of sustainability-related technologies has dropped dramatically,[4] making it cheaper and easier for companies to use them—renewable energy, energy storage, digital platforms, and advanced data analytics, in particular. Accordingly, respondents report the wider adoption of various technologies across all regions, notably India and the Middle East and North Africa, compared with five years ago (Exhibit 4). Among these technologies, the greatest gains in adoption have occurred in big data and advanced analytics, as well as digital platforms.

Meanwhile, 49 percent of respondents in India say their companies have adopted renewable sources of energy—the highest percentage of all regions, up from 28 percent five years ago. Responses from the Middle East and North Africa also show that organizations in that region have accelerated their adoption of energy-efficient equipment more than their counterparts in other regions have.

The gap between values and action

Respondents report little change in the number of activities their organizations are pursuing to achieve sustainability goals. The survey asked about 11 such activities in three categories: growth, return on capital, and risk management, as we have done since 2011.[5] In the areas where organizations were most active in previous years—managing reputation, improving resource efficiency, and responding to regulatory constraints—they remain active still. Companies are more active than before in only three of

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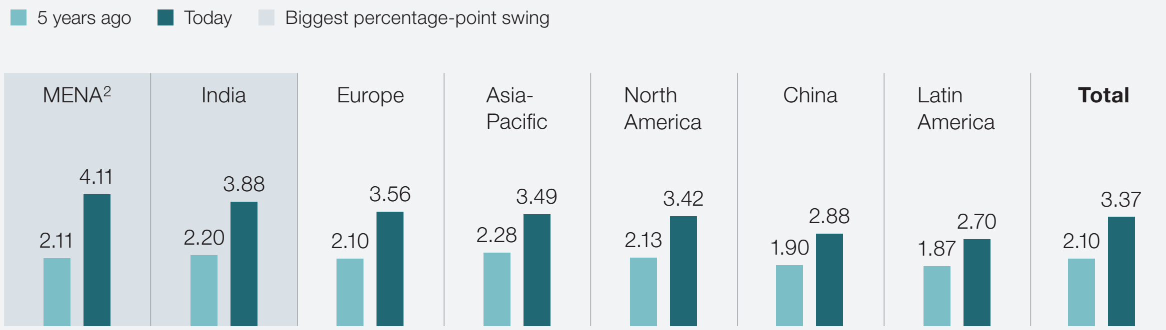
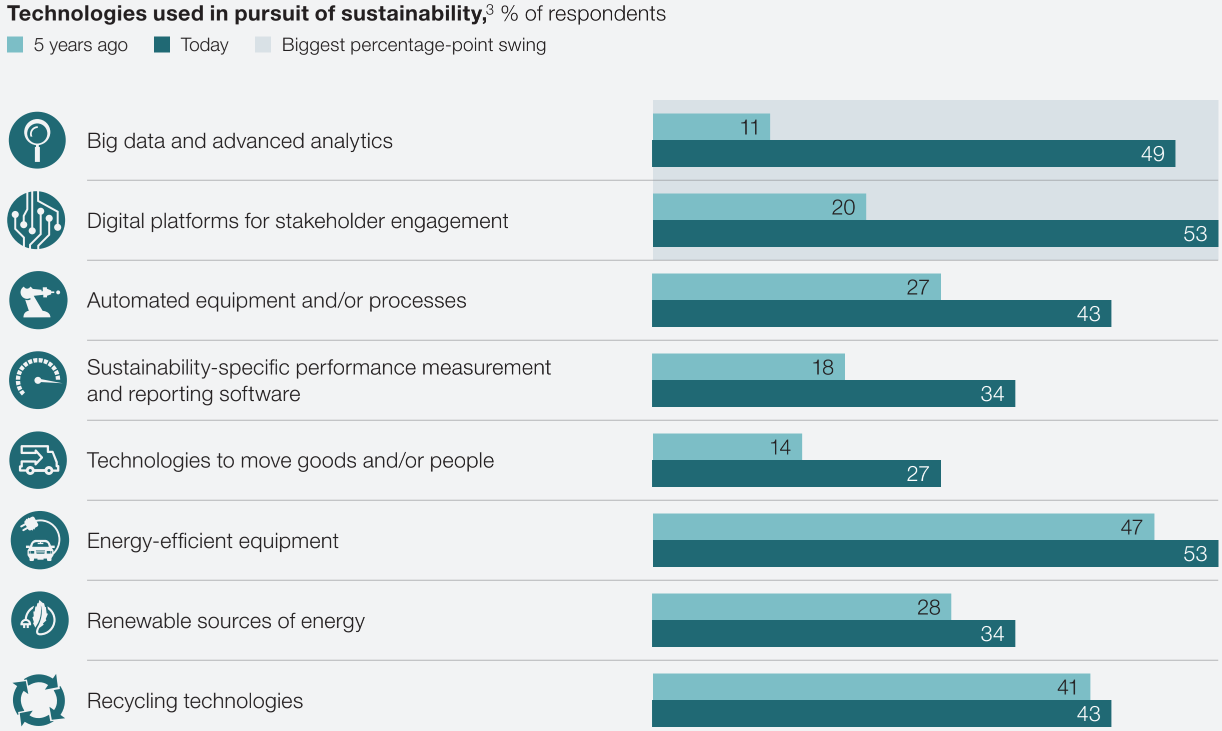
Across regions, respondents report the wider adoption of sustainability-related technologies in their businesses—particularly in India and the Middle East and North Africa.

Exhibit 4 **Respondents report the wider adoption of sustainability-related technologies across all regions over the past five years.**

Average number of technologies used in pursuit of sustainability,[1] out of 8



Technologies used in pursuit of sustainability,[3] % of respondents



[1] In Middle East and North Africa, n = 85; in India, n = 224; in Europe, n = 887; in Asia–Pacific, n = 265; in North America, n = 547; in China, n = 41; in Latin America, n = 171; total n = 2,422.
[2] Middle East and North Africa.
[3] Total n = 2,422. Technologies are arranged in descending order, based on the percentage-point differences between the "today" and "5 years ago" responses. Respondents who answered "other," "none of the above," or "don't know" are not shown.

the 11 areas. But in line with the most common reasons that organizations are pursuing sustainability, two of these three areas relate to employees and customers: engaging employees in sustainability-related activities and marketing sustainability-related attributes to customers (Exhibit 5).

Notably, respondents indicate that their organizations' pursuit of all three growth-related activities has declined in recent years. One-quarter of respondents say their companies are committing R&D resources to sustainable products or services, down from one-third in 2014. Among respondents who say their companies are pursuing all three, 39 percent report a positive financial impact from their sustainability programs; by contrast, only 26 percent of all respondents say the same.

Exhibit 5

On the whole, fewer organizations are pursuing growth-related sustainability activities than did so in previous years.

[1] For example, water, energy, or waste.

On average, nearly two-thirds of respondents say they expect that activities across the three categories will create value for their organizations in the years ahead, up from 58 percent in the past two surveys—and perceptions of value-creation opportunities vary by industry (Exhibit 6). More than 80 percent of retail-sector respondents, for example, see modest or significant potential value in managing the sustainability impact of their supply chains, compared with 60 percent of all others.

Even within industries, the results indicate notable differences between the activities that organizations are pursuing and the activities that executives think have the most potential for creating value. Nearly two-thirds of respondents in metals and mining say they see significant value in bringing existing sustainability-related products—conflict-free minerals, for example—to new markets or customers; only 7 percent, though, say that their organizations are doing so. More than 60 percent of financial-services respondents see significant value potential in managing the business portfolio to capitalize on sustainability trends, but only 28 percent say this is something their organizations actually do.

Limited integration with core functions

Companies not only struggle to pursue the sustainability activities with the highest potential value but also find it challenging to measure the financial implications accurately. One in five respondents say they don't know what financial impact sustainability programs have had on their organizations in the past five years. Respondents whose companies have measured the financial impact are as likely to say that sustainability is a cost as to say that it creates value.[6] What's more, about one-quarter of respondents say that they don't know how much, if anything, their organizations spend on sustainability-related initiatives—and a similarly small share say sustainability's financial benefits are clearly understood across their organizations.

One place to start, the results suggest, is integrating sustainability into core business functions—and finance, in particular. The survey asked how integrated sustainability is into 11 core business functions, and respondents indicate that integration into finance is the least common. Yet, along with R&D and

Companies not only struggle to pursue the sustainability activities with the highest value but also find it challenging to measure the financial implications accurately.

Exhibit 6

Perceptions vary by industry on the top value-creation opportunities from sustainability over the next five years.

% of respondents who expect modest to significant value, top 3 by industry

≤70 · 71–80 · >80

	Automotive and assembly	Chemicals	Consumer packaged goods	Electric power and natural gas	Financial services	High tech	Metals and mining	Oil and gas	Retail
Growth									
Managing **business portfolio** to capitalize on trends in sustainability	64	76		82			67		
Committing **R&D resources** to developing sustainable products/services		78		77					
Bringing existing sustainable products/services to **new markets/customers**	70					63			
Risk management									
Mitigating **operational risk** related to climate change/ sustainability topics			71			69		77	
Managing **reputation** for sustainability			77	78	76			75	
Responding to **regulatory constraints** or opportunities			70		68	62			
Return on capital									
Marketing **sustainability-related attributes** of products and/or services									
Managing **impact** of products/services across the **supply chain**	64						68		82
Managing **impact** of products/services through end of their **useful lives**						62			
Improving **use of resources** in own operations[1]	66	83					83	82	79
Engaging **employees** in sustainability activities					72	62			79

[1] For example, water, energy, or waste.

strategic planning, integration with the finance function appears to yield the greatest value (Exhibit 7). Respondents who say that sustainability is formally integrated into at least one of the functions—regardless of which—are at least twice as likely to report a positive financial impact as those who say that sustainability isn't integrated into any of them.

Exhibit 7 **The results suggest that integrating sustainability into core functions can have a positive financial impact.**

[1] Respondents who answered "other" or "don't know" are not shown. Total n = 2,422.
[2] Includes respondents who report either modest or significant value creation from their organizations' sustainability programs; those who answered "significant cost," "modest cost," "minimal to no cost or value," or "don't know" are not shown. Total n = 2,422.
[3] Not applicable; sustainability is not formally integrated into any function.

But finance is not the only function where the results suggest room for improved integration: less than one-quarter of respondents say that sustainability is formally integrated into the sales and marketing function. What's more, only 18 percent say that employee compensation is linked to sustainability performance at their organizations. And even though respondents say that both customers and employees are increasingly powerful drivers for acting on sustainability, only one-third report that employees across the organization understand how sustainability efforts align with the overall strategy.

With technology, we see similar results. Even as respondents identify technological advances as a main reason for the growing commitment to sustainability, just one-quarter report the formal integration of sustainability into IT. Digital platforms and energy-efficient equipment are cited most often as the technologies that support sustainability work. But stronger integration with IT could foster stronger stakeholder engagement with customers, employees, and suppliers.

Looking ahead

In response to the evolving priorities and reasons to pursue sustainability, here are some steps that companies can take to adapt their approaches and capture greater value from their sustainability efforts:

- *Align sustainability strategy with business strategy.* Executives should develop sustainability strategies with the same rigor they use to develop the business strategy, and with the overall business strategy in mind. This will enable their sustainability efforts to deliver value to the business, especially when the sustainability strategy is translated into clearly articulated goals, metrics, and lines of accountability across the organization (as would be the case in other areas of strategy development).

- *Enhance governance for better results.* In our experience, companies with good governance structures to oversee and manage their sustainability efforts see better financial results from it. The survey confirms this: value creation is nearly twice as likely when at least one formal governance structure is in place. There is no "right" governance structure—an organization's setup should align with its overall sustainability approach and strategy. Some companies may have teams that focus on sustainability, while others use cross-functional leadership teams to drive their programs. But regardless of structure, there are some key success factors, including executive-team oversight and clear lines of accountability, that will support better financial *and* sustainability results.

- *Embed sustainability into business functions.* The survey results indicate a gap between the reasons for addressing sustainability and where in the company sustainability actions are pursued. Since alignment with a company's goals, mission, and values is the most common reason for action on sustainability issues, there is an opportunity to embed sustainability programs into the fabric of the business. Most companies have a sizable opportunity to integrate sustainability into more of their core business functions, from finance to sales and marketing and HR, and for functional leaders to have their own sustainability action items—all of which would help close the gap between reasons and actions. ■

[1] The online survey was in the field from May 16 to May 26, 2017, and received responses from 2,711 participants representing the full range of regions, industries, tenures, company sizes, and functional specialties. Of these respondents, 2,422 said their companies are pursuing sustainability programs and answered the full survey. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] The first of these surveys, conducted in September 2007, involved 2,687 participants from around the world. The respondents represented the full range of regions, industries, company sizes, tenures, and functional specialties.

[3] International Renewable Energy Agency, Abu Dhabi, Renewable Energy Statistics 2017.

[4] For more, see "How technology is reshaping supply and demand for natural resources," McKinsey Global Institute, February 2017, on McKinsey.com.

[5] "The business of sustainability: McKinsey Global Survey results," October 2011, McKinsey.com.

[6] Twenty-eight percent of all respondents whose companies measure the financial impact of their sustainability programs say that sustainability is either a significant or a modest cost. By comparison, 26 percent say that sustainability has created either significant or modest value.

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