Sustainability Lessons From the Front Lines

Too many companies have approached sustainability initiatives in a way that is just plain unsustainable. To foster more lasting change, it’s important to address six of the biggest stumbling blocks.
THE CURRENT CORPORATE sustainability movement is unsustainable. Not because companies are pursuing the wrong goals — but because they are going about them the wrong way. Never before have companies been more conscious of the need to run their businesses in an environmentally, socially, and economically responsible fashion. Yet never before have theory and practice been wider apart. When it comes to practicing and not just preaching sustainability, many companies struggle, and most flounder in developing and implementing a sustainable business model. Executives know and feel the importance of making their businesses sustainable. But many of them can’t make the transformation occur. Worse still, many don’t even know they’re failing.

In our combined experiences as an educator and consultant (CB Bhattacharya) and as the CEO of a large consumer products company and the chairman of the World Business Council for Sustainable Development (Paul Polman), we have had the opportunity to observe and work with multinationals that have had various degrees of success developing and implementing a sustainable business model designed to integrate environmental and societal concerns into business decisions. Based on observations of a number of companies, we have now been able to identify six “pain points,” or thorny challenges, that seem to be the biggest stumbling blocks. (See “About the Research,” p. 72.) Below, we identify these challenges and offer practical advice on how to surmount them.

1. SUSTAINABILITY IS MORE THAN JUST A CHANGE INITIATIVE. Many companies erroneously view embedding a sustainable business model as yet another change-management initiative. However, we emphasize that implementing a sustainable business model is fundamentally different. Change-management initiatives are usually driven by some external factors or by internal performance issues and are typically directed at increasing profitability and...
shareholder value. Many change-management initiatives appeal only to certain parts of the organization. Not surprisingly, change initiatives often fail, in large part because employees don’t truly embrace them.¹

In contrast, sustainability is about people and planet, as well as profits. Sustainability involves creating value for all stakeholders in the ecosystem and viewing profits as a consequence of such value creation. Implementing a sustainable business model requires executives to engage with the entire organization as well as multiple external stakeholders (such as nongovernmental organizations, shareholders, suppliers, regulators, and competitors), and to balance multiple goals that are sometimes in conflict. To accomplish this task, a business needs to operate in a much more transparent and symbiotic way and strive to make everything it does purpose-driven. This goes way beyond strategy, into a philosophy of what the role of business is, a debate that has been ongoing since the time of the renowned late economist Milton Friedman.² Sustainability runs much deeper than most other change efforts. Not only does overhauling current business practice and implementing a sustainable business model take time, energy, and significant resources, it also raises the vital question, “Why do we do what we do?”

A sustainable business model is iterative, constantly evolves over time, and is a moving target. The process of implementing a sustainable business model usually starts with the CEO and his or her leadership team doing a strategic review of the business, which often entails going from an “inside out” perspective (we make great products, let’s sell them) to an “outside in,” stakeholder-centric focus (where is the world headed, and what’s our role?). For companies that lead in making sustainability mainstream, things are moving very, very fast. Issues are emerging now that didn’t exist two or three years ago, even for these relatively well-prepared organizations. Thus, that external reference point of “where the world is headed” is absolutely key to thinking about sustainability and a sustainable business model.

The CEO has to lead this charge. We have seen in multiple companies and change efforts that when the development of the sustainable business model is delegated to the corporate social responsibility office or another task force, it fails or happens only halfheartedly. As part of the strategic review, the CEO and the top leadership team must ask some hard questions: What is our business’s purpose? Where is growth likely to come from in the future? What are the megatrends impacting our business? What are the likely supply constraints in our industry? What are stakeholders within and beyond our value chain asking of our business? This exercise should lead to a list of material issues that the business must address to grow and operate successfully in the future.

When Unilever conducted this kind of top-management review, it revealed, among other findings, that the company’s future growth would primarily come from emerging markets (where the needs of health and hygiene are the greatest) and would involve pricing and distribution challenges. Second, there were a host of environmental issues such as deforestation, poor sanitation, and water scarcity that had implications for product development, manufacturing, and supply-chain security. Third, greater access to communication among stakeholders required the company to actively engage with multiple stakeholders and be more transparent to limit reputation risk. That exercise gave birth to the Unilever Sustainable Living Plan, the blueprint for the

ABOUT THE RESEARCH
Over the past two years, one of the authors, CB Bhattacharya, has interviewed more than 100 individuals with a view to understanding what some leading companies in sustainability are doing to embed a sustainable business model within their organizations. The interview subjects have ranged from CEOs, C-suite executives, and managers to office employees and factory workers; functionally, the interviewees hailed from various departments including procurement, marketing, finance, and human resources. In the course of conducting the interviews, the author has visited corporate headquarters, branch offices, retail stores, and factories on multiple continents. The research has been focused on large public companies, several of which, including Unilever, are mentioned in the article. The article also reflects the insights and learnings of coauthor Paul Polman, who is the CEO of Unilever and chief architect of its sustainability plan as well as the chairman of the World Business Council for Sustainable Development.
Companies expand their sustainability programs to include suppliers but often struggle in implementing their initiatives. However, looking at the entire value chain is critical.

Embedding a sustainable business model thus requires an integrated perspective, incorporating both marketing and supply-chain considerations. From a marketing perspective, sustainability goals strongly influence product design, communication, and channel selection. From a supply-chain perspective, sustainability goals strongly influence component selection, materials sourcing, production, packaging, distribution, and recycling decisions. For a company to promote a sustainability agenda to its markets, it is critical that the enterprise consider the entirety of value-added processes.

Tools such as carbon- and energy-footprint analysis and life-cycle assessment help companies identify the sources of waste in supply chains. Life-cycle assessment is particularly useful: It captures environment-related inputs and outputs of entire value chains, from raw-materials supply through product use to returns. This has helped companies identify the parts of their supply chains that use the most resources.

At Unilever, armed with the realization that the company would have to fundamentally change the way it did business, the first step was to perform an internal measurement across the value chain of the environmental impact of the company’s products—in terms of waste, carbon dioxide emissions, water, and packaging. The key point is that this assessment was done across all brands, all countries, and total value chains—to see, for example, what the carbon impact was in cooking, taking showers, deforestation, or food waste. Notably, Unilever’s analysis of its entire value chain revealed that much of its footprint was at the consumer end, involving issues such as using more product than necessary or improper end-of-life disposal. This analysis revealed a tremendous opportunity to reduce Unilever’s environmental footprint, as well as to focus the organization and to align resources.

Other companies also do footprint analyses across the value chain. For example, Coca-Cola's sustainable business model. The blueprint was easy to communicate internally and externally and audacious enough for stakeholders to notice.

2. LOOK AT THE ENTIRE VALUE CHAIN. To identify the best leverage points for value creation via a sustainable business model, it is important to do a thorough analysis of the company’s performance with regard to both the planet (carbon, water, and waste footprints) and people (taking stock of working conditions). Some companies miss the fact that such analysis needs to be conducted across the entire value chain, not confined to the company’s operations alone.

Why does this oversight occur? First, implementing a sustainable business model is often classified as a change-management initiative (as discussed above), and those initiatives typically don’t go beyond the confines of the organization. Second, focusing on the organization rather than the value chain is easier in terms of resources. Third, in global supply chains, different management concepts and cultures often clash, making analysis difficult. As a result, companies expand their sustainability programs to include suppliers but often struggle in implementing their initiatives.

However, looking at the entire value chain is critical, as the opportunity to reduce one’s footprint is often bigger outside organizational boundaries. Total value-chain assessment also allows a company to identify “material issues” and thus focus its efforts. Results indicate that companies with strong performance on such material issues outperform those with poor performance on them—a finding consistent with material investments being value-enhancing for shareholders. The value chain describes the full range of activities that are required to bring a product or service from conception through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.
European Partners plc, with the active engagement of top leadership, performed a thorough footprint analysis of the core business and entire value chain. The analysis revealed that packaging was a material issue for the company, and that insight subsequently led to water and carbon being at the heart of its sustainable business model. Similarly, Boston-based athletic footwear company New Balance Athletics Inc. reduced the number of its suppliers based on their sustainability performance. The company is now focused on forming strong, positive partnerships with its existing suppliers.

3. MAKE SUSTAINABILITY A PRIORITY FOR THE BOARD. Even when sustainability is a priority for management, implementation of a sustainable business model often suffers because boards aren’t on board. While most managers we spoke with agreed that boards should play a strong role in sustainability, a recent study shows that only 22% of managers feel that their boards provide substantial oversight on sustainability issues. A 2014 report by the United Nations Environmental Programme Finance Initiative looked into Bloomberg data on 3,512 companies that reported on at least one sustainability-related data point and found that only 2% of those companies had an executive or nonexecutive director responsible for sustainability. The challenges of engaging the board are many: management’s inability to clearly explain the financial impact of sustainability initiatives, a lack of sustainability expertise among board members, other priorities, an orientation toward short-term results, and, of course, the entrenched view that boards should focus on shareholder value.

To overcome these barriers and engage the board, the first task is to understand and explain the board’s oversight role. As Robert G. Eccles and Tim Youmans of Harvard Business School have written, within most jurisdictions across the world, the board’s duty to shareholders is always to be “separate from and never superior to” its duty to the corporation. According to Eccles and Youmans, “Even in the United States, a director’s duty to shareholders is at best coequal with, but not above, the duty to the potentially immortal corporate entity.” In other words, one of the board’s most important duties is to ensure the long-term viability of the company. The board must also ensure that the governance in the company is such that there is no undue risk.

To bring this role to life, companies may need to appoint new board members with sustainability expertise, use an external sustainability advisory group, and explicitly integrate sustainability into board duties. Unilever top management, for example, has spent a lot of time discussing with the board and board committees both the Unilever Sustainable Living Plan and the sustainable business model that would deliver on the plan. Unilever has an external sustainability advisory committee that meets with the board three or four times in a year; these meetings are useful settings to explain what the company is doing and to allow the board to ask questions, so it can also manage and support the company.

While the Unilever board is now certainly behind the Unilever Sustainable Living Plan, several board members initially had to be educated on what seemed like a radical plan. They were unsure about the plan targets and about how the company might be affected and held accountable for its performance in this area. Now, board members understand that the Unilever Sustainable Living Plan is a living document. What may not have been very relevant five years ago is clearly relevant today — such as the addition of a social-compliance component to the plan, which is something the board had to ratify. Board members also realize that transparency is not adversely exposing the company as much as some of the older board members had initially thought but is actually strengthening the core of the company by building trust.

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A good example of the board’s support of the company’s vision was when Unilever decided to abandon quarterly reporting. That’s not a decision a board takes lightly, nor is that a decision the CEO makes alone. Some board members disagreed and pushed back, which prompted the company to come up with a stronger plan. But the board saw the logic and went along. Increasingly, the Unilever board sees the company’s sustainability plan as a good way to ensure the long-term viability of the company and build shareholder value over the long term. Managing board expectations about what the company is going to deliver is key to building a sustainable business.

In other instances, a more direct link to the top and bottom lines may make a more convincing narrative. At IBM Corp., a case was made to the board that developing more efficient processes involving scarce earth metals used in IBM products would allow the company to use less and waste less of such metals. That would both align with sustainability objectives and give the company a greater profit margin. With less reliance on scarce resources, a company can have greater flexibility than a competitor.

4. GAIN BUY-IN FROM THE “UNDECIDEDS.”

In several companies that have embarked on the sustainability journey, we have observed that certain segments of the workforce readily buy into the basic essence of what the company is trying to do. Typically, senior leadership and young recruits “get it” — both are typically much more purpose-driven than the rest of the organization. But there is a big middle layer of “undecideds” that needs to be brought on board.

To get the middle of the organization on board, it’s not the what but often the how that leaders needs to emphasize — by giving permission, removing barriers, empowering employees, emphasizing economics, and investing in training. In short, tap into both employees’ hearts and brains.

One of the big barriers many organizations must surmount in the undecided segment of the workforce is fear of the unknown. It’s the sense of, “Am I making a mistake on something that’s new?” One tactic we found effective to help facilitate change is simply to get people started. Imagine asking people to run a marathon when they are not runners. That request will not make them get off the sofa. But, if you can persuade them to start taking regular walks, there’s a chance that, in five years, they will be running marathons. Similarly, to engage reticent middle managers, it’s important to be careful about how much you ask of them at the start, for fear of scaring them off.

It’s important to establish clear targets and hold the organization accountable for them. Measurement builds accountability among employees and enables the company to report on its progress. At several companies we have studied, a small portion of senior managers’ variable compensation has been tied to sustainability targets, emphasizing the importance of sustainability. The initial targets are typically low-hanging fruit, but reaching them can energize the company and make gaining buy-in easier.

Showcasing the economic rationale for operating in a more sustainable way is not always easy, but it is critical in order to get hard-nosed business leaders on board. Don’t just count the amount of energy that you save. If you talk to a finance person about a particular initiative, talk to him or her in terms of money, not kilowatt hours. Marks and Spencer Group plc, the large London-based retailer, didn’t get that right at the beginning. As one Marks and Spencer sustainability executive explained, “We’d go in and talk, ‘the world’s about to end, we need to do that’ to someone who frankly didn’t care. Then someone turns around and says, ‘There’s a 435-million-pound opportunity that we can exploit,’ and the person says ‘Ah. Tell me more.’” Changing the language gives numbers-oriented managers the business case for investing in sustainability.

Unilever has a host of young Unilever Sustainable Living Plan ambassadors who proactively talk about the plan to colleagues. Unilever celebrates sustainability awards it received and shares its sustainability successes with employees. Over time, employees start to see that doing business sustainably is also right for the business. As employees feel more confident and empowered, more and more of the middle mass of the organization begins to buy in, and the skeptics become quieter. Once employees catch the sustainability bug, momentum builds, and people start to become creative.

5. MAKE SUSTAINABILITY PART OF EVERY EMPLOYEE’S JOB.

Persuading employees to buy into the sustainability journey is one thing; persuading them to make it part of their day job, which is the only way the sustainable business model can be
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successfully implemented, is more difficult. Most managers continue to believe, “Sustainability is great, but it’s someone else’s job, and I have more important things to do.” This is a huge hurdle, because to effectively implement a sustainable business model, every employee must play his or her part.

A savvy balance of rigidity and flexibility helps integrate sustainability into everyone’s job. At Unilever, top management sets the overall company targets, but specific implementation is left to individual departments and business units. Food waste is a good example. Top management can set a goal to reduce food waste by 20% or 30%. But that has to be translated to which crop and where, in which country, and how. In some countries, the source of food waste is in the fields; in others, food waste results from the retailing and distribution system. Implementation of a general strategy requires granular, tactical execution.

The following examples show what different departments can do to drive sustainability through the organization.

- **Procurement** Securing supply-chain security, sourcing sustainably by training, developing relationships with suppliers, and cutting waste in supply chains are ways in which a sustainable business model can be implemented in the procurement function. A key success factor here is to train the procurement team on material sustainability issues to allow informed conversations with suppliers. IBM, for example, told its suppliers to meet eight requirements (including CO2 emissions reduction, waste recycling, and energy consumption) and show evidence by publicly disclosing the results. However, the company was not heavy-handed and prescriptive; it circulated a letter from the chief procurement officer stating the direction in which the company was headed and let the procurement team help suppliers reach their goals.

- **Marketing** Promoting the environmental and social benefits of a product, urging responsible consumption and proper disposal, and working closely with innovation and R&D on developing sustainable products are all in the realm of marketing. For example, Unilever uses its marketing prowess to imbue a social purpose to each of its brands (such as Dove, Lifebuoy, Knorr, and Vaseline). Brand managers are asked to look at the environmental and social impact of brands and come up with “brand purpose statements.” As part of its advanced marketing and sales program, Nestle SA has a session on creating shared value for external stakeholders as well as the company, and about 700 managers have gone through this program in the last three years.

- **Innovation and R&D** For sustainability to be seen as an integral part of business strategy and not just a cost-cutting exercise, the case for sustainable innovation needs to be made. Today, companies have the ability to access proper tools to evaluate environmental sustainability, and tools for nutrition and social aspects are being developed. Sustainability assessment (using eco-efficiency and life-cycle analysis) is mandatory at some leading companies for every project before it goes to development. At Unilever, managers are charged with looking at consumers’ environmental and social needs during product development. For example, when developing products for markets that tend to be water-stressed, managers not only worry about reducing water footprint in their own manufacturing but also think about ways to reduce water usage at the consumer end. This has led to developing and marketing soaps that don’t use water at all, as well as soaps that turn green in the hand-washing process to signal to children in disease-prone areas that they have washed their hands long enough.

- **Finance and investor relations** More than their counterparts in other functions, finance executives cite a number of barriers to increased involvement in sustainability, including a lack of decision-making frameworks that take environmental and social factors into account. However, companies leading in this area, such as The Dow Chemical Co.,
incorporate sustainability criteria into traditional financials tools, such as economic value added. The reporting function is another touch point; for example, enterprise application software company SAP SE has produced an integrated report that covers both financial and sustainability information.11

- **Business/geographic units** Business units in far-flung corners of the globe know their local conditions the best and thus implement a company’s sustainable business model in ways that have the biggest impact in their region. For example, at a Unilever factory in Khamgaon, India — a location in a water-stressed area — the company helps local farmers build check dams and thus increase yearly crop yields. Such efforts not only boost the purchasing power of the local population but also strengthen the pipeline of prospective factory workers.

Ultimately, the aim is to get all employees conducting business through the “sustainability lens.” At Coca-Cola European Partners, for example, site directors point to small-scale, local innovation driven by employees. An employee who decides to do something differently with water flows, or electricity use, or temperature on a particular piece of equipment to save energy might make a small change, but many such small decisions can add up to a very big impact.

6. **REDEFINE THE COMPETITIVE SPACE BY COLLABORATING.** No one company can solve the “tragedy of the commons” by going it alone. Industry collaborations are required to solve complex supply-chain challenges such as deforestation. A case in point: A few years back, Marks and Spencer realized that it couldn’t change the world of commodity production on its own. It started taking part in the World Economic Forum and the Consumer Goods Forum, which brings together like-minded organizations to create a common message about sustainability.

Collaborations allow companies and people to access expertise and networks of relationships and to benefit from partners’ political influence, standard-setting authority, and ability to impact public opinion. Despite these advantages, hurdles abound. Companies:

- have different cultures and sustainability goals;
- have difficulty trusting one another;
- fear losing intellectual property;
- need increased management resources and attention to manage collaborative initiatives;
- need to integrate perspectives from multiple powerful stakeholders (which often have competing values and aims);
- and fear that, if they collaborate, they will not be able to differentiate themselves from their peers.12

To surmount these hurdles and start collaborating with competitors, we collectively need to put sustainability in the precompetitive space. As one chemical industry executive put it, “Let’s compete on the temperature, not on the thermometer.” Clearly, this goes against the traditional business mentality of maximizing private gain — and can only be accomplished once companies embrace the new philosophy of business in terms of value creation for all stakeholders. But it’s doable. Once a sustainable business model is implemented, a company’s internal culture typically becomes more collaborative, which makes external collaborations easier. A tangible way to start is by working with suppliers first, which is what Coca-Cola European Partners did, before approaching competitors.

Second, companies need “neutralizers” to break the ice and foster conversation — whether that neutral party is the government, an NGO, an academic institution, or a trade association. As one Marks and Spencer executive put it, “It’s not gone to the point where I can call my colleague at [competitor] Sainsbury’s and say, ‘Can you come over

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for a meeting on this?” A neutral ground in terms of where the meeting takes place helps create a certain comfort level and allows people to open up.

Collaboration can certainly drive transformational change. The Consumer Goods Forum, representing top retailers and consumer-goods manufacturers, came together to work to eliminate net deforestation in members’ supply chains by sustainably sourcing the commodities that drive much deforestation: palm oil, beef, soy, and timber. Those four commodities are responsible for more than half of worldwide deforestation, which in turn results in greenhouse gas emissions. It was a pretty special moment in 2010 when competitors like Unilever, Procter & Gamble, Nestle, Coca-Cola, and PepsiCo agreed on a common agenda to combat deforestation.

This business-led effort actually helped governments raise their level of ambition and reach out to form the Tropical Forest Alliance 2020 in 2012, which brought businesses, NGOs, and governments together to help support progress toward the objectives of combating deforestation. As a result of this alliance, in September 2014 at the U.N. Climate Summit, the New York Declaration on Forests was announced, making a very strong statement of intent to end natural forest loss by 2030 and cut it in half by 2020. That declaration is an example of the power that comes when businesses set aside competition to agree on sustainability as a common goal. One company can lead, but it’s only when others in the sector align around a common purpose to create a critical mass that NGOs and other stakeholders recognize the seriousness of the companies’ efforts and look to raise their collective ambition and scale. This kind of system-level alignment would not have occurred in earlier years.

Sustainability is a grand goal for multinational companies that have been focused for years on quarterly profits and shareholder value. But financial performance and sustainability are not mutually exclusive, if the very significant barriers to aligning them can be identified and surmounted with impassioned management. Once companies start on a path toward sustainability, momentum takes hold and the organizations can move forward, with the majority of their employees striving toward sustainability.

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