The UN Global Compact-Accenture CEO Study on Sustainability 2013

Architects of a Better World

Contents

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Architects of a Better World

CEOs on accelerating the journey from plateau to peak on sustainability

In the world's largest CEO study on sustainability to date, more than 1,000 top executives from 27 industries across 103 countries assess the past, present and future of sustainable business; discuss a new global architecture to unlock the full potential of business in contributing to global priorities; and reveal how leading companies are adopting innovative strategies to combine impact and value creation.

September 2013

The Ten Principles of the United Nations Global Compact

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Human Rights

PRINCIPLE 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
PRINCIPLE 2	make sure that they are not complicit in human rights abuses.

Labour

PRINCIPLE 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
PRINCIPLE 4	the elimination of all forms of forced and compulsory labour;
PRINCIPLE 5	the effective abolition of child labour; and
PRINCIPLE 6	the elimination of discrimination in respect of employment and occupation.

Environment

PRINCIPLE 7	Businesses should support a precautionary approach to environmental challenges;
PRINCIPLE 8	undertake initiatives to promote greater environmental responsibility; and
PRINCIPLE 9	encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

PRINCIPLE 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Foreword

Georg Kell,
Executive Director
UN Global Compact

Bruno Berthon,
Global Managing Director,
Strategy & Sustainability
Accenture Management Consulting

We come together at this year's Leaders Summit at a crossroads in the global economy. As business, government, civil society and the United Nations look ahead to 2015 and the deadline of the Millennium Development Goals,[1] we have an historic opportunity to set the economy on a pathway to sustainable growth.

The United Nations has worked since its founding to achieve a shared, secure and sustainable future for all of the world's people. The vision and aspirations of the first United Nations members in 1945, as they set out to be the "architects of a better world," remain a beacon today—not just for governments, but also for the thousands of companies and civil society organizations that have become key partners in tackling our world's most pressing challenges. In recent years we have witnessed a remarkable broadening of the corporate sustainability movement, with growing commitment in every quarter of the world to achieving success while ensuring that business benefits economies and societies everywhere. This year, as the world's largest corporate sustainability initiative, the Global Compact has a unique role to play in linking the enduring, universal values of the United Nations with a global architecture that can unlock the full potential of business in contributing to global priorities.[2]

In collectively seeking to outline a pathway for business to contribute to global priorities, from environmental sustainability to labor standards, human rights and anti-corruption, we must first understand and communicate the views of business leaders. This year's study is the largest-ever CEO study on sustainability, representing the perspectives of more than 1,000 chief executives worldwide on the past, present and future of sustainable business, and on what it will take to harness sustainability as a transformative force in the global economy.

During our last study in 2010,[3] respondent CEOs across the world expressed a strong belief that a new summit, or "peak", was in sight for global capitalism and sustainable development: an era in which sustainability was to be embedded into companies globally and in which markets would align with development priorities to enable business to contribute at an unprecedented scale. But as business leaders have continued on their journey, many have found themselves stuck on their ascent, unable to scale sustainability at the pace required to address global challenges. During our conversations this year, business leaders described a plateau beyond which they cannot progress without radical changes in market structures and systems, driven by a common understanding of global priorities.

But among sustainability leaders—those companies achieving superior business performance and impact on sustainability challenges—we can see the beginnings of a collaborative, systems approach to sustainability, focused on value creation and the impact business can make. In the innovations of these leaders, we can see the seeds of a new approach: innovating new technologies and solutions, collaborating within and across industries and sectors, and working closely with stakeholders to develop the beginnings of transformational change.

We hope that this rich, authentic, firsthand voice of business can help to articulate a new set of global priorities, and engage companies and key stakeholders in an architecture that aligns business with sustainable development priorities leading up to 2015 and beyond.

Introduction

This year marks the Global Compact's third CEO study, and the latest milestone in nearly a decade of research. Over the course of our three studies, during which I have been fortunate enough to conduct one-to-one interviews with more than 200 CEOs from some of the world's largest companies, and collect the views of a further 2,000 through our online surveys, much has changed. There is reason to be optimistic: since our first study in 2007, the Global Compact has grown to include nearly 8,000 companies globally, demonstrating an unprecedented broadening of commitment among companies worldwide; sustainability has become firmly established on the leadership agenda of almost every leading business; and in the advances of the leaders we can see bright spots of real, transformational innovation that are allowing business to create value while having an ever-greater impact on global challenges. But there is also reason for caution. Evidence suggests that the global economy is not on track to meet the needs of a growing population with planetary boundaries, and our interviews this year suggest that business may collectively have reached a plateau in the advancement of sustainability. Without radical, structural change to markets and systems, CEOs believe, business may be unable to lead the way toward the peak of a sustainable economy.

In compiling this year's UN Global Compact-Accenture CEO Study, we followed two principal strands of research. First, we conducted more than 100 in-depth interviews with global business leaders. This included 77 CEOs, chairpersons and presidents of Global Compact companies across 28 countries and representing a broad spectrum of industry perspectives. An additional 30 interviews were conducted with other senior leaders: executive board members, civil society leaders, external experts and Global Compact board members.

Second, we conducted an online survey of 1,000 CEOs of companies participating in the Global Compact. Survey respondents were drawn from 103 countries across 27 industry sectors, including automotive, communications, consumer goods and services, energy, financial services, metals & mining, and utilities. Reflecting the global representation of Global Compact participants, 526 of the respondents were from companies primarily based in Europe; 201 from the Americas; 187 from Asia Pacific and Australasia; and 86 from the Middle East and Africa. This is the largest study of CEOs on sustainability to date, and while we must note that their views—from Global Compact participants, who freely gave their time to participate—may not be representative of the majority of businesses globally, and that female CEOS continue to be underrepresented among the global business community, our approach has assembled a rich and diverse set of insights, allowing us to explore, test and refine emerging themes and ideas.

We would like to acknowledge the extraordinary contributions of the Global Compact sponsors and project leads Georg Kell, Gavin Power, Carrie Hall, Sean Cruse and Kristen Coco, as well as our partners on our forthcoming studies of investors and consumers, James Gifford and Matthew McAdam at the Principles for Responsible Investment, and David Jones and Sharon Johnson at Havas. We also recognize the leadership of the Accenture co-author team, in particular lead author and project manager Rob Hayward, as well as Jennifer Lee, Justin Keeble and Robert McNamara. There have been many further contributions from colleagues in Accenture too numerous to mention here, but without whom our analysis would not be as compelling—in particular the project sponsors Sander van't Noordende and Bruno Berthon, as well as Olly Benzecry, Mark Spelman, David Thomlinson, Gib Bulloch, Nobuko Asakai, Ynse de Boer, Guanghai Li, Vishvesh Prabhakar, Alexander Holst, Serge Younes, Pranshu Gupta, Meng Meng Cui, Suzanne Rozier, Matthew McGuinness, Edward Robinson and Rod Kay.

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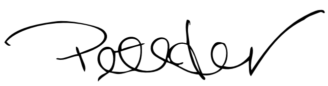
This year's study is a unique opportunity to take stock as we stand at a crossroads in the global economy. Business leaders are committed to leading the way, but will require greater ambition and wider support as they work to align sustainability impact with value creation, and markets with sustainable development outcomes, such that business leaders can truly become the architects of a better world.



Peter Lacy
CEO Study Lead
Managing Director, Accenture Strategy & Sustainability, Asia Pacific

32% of CEOs believe that the global economy is on track to meet the demands of a growing population within environmental and resource constraints.

One-to-one interview participants

We would like to thank the following CEOs, chairpersons and presidents for their insights in shaping this study. While the views expressed do not necessarily represent the totality of opinions received from all contributors, their participation and guidance have been critical.


Igal Aisenberg,
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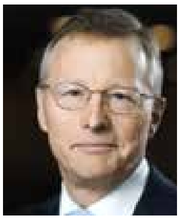
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Group CEO,
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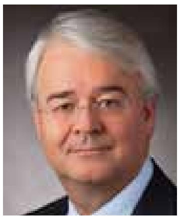
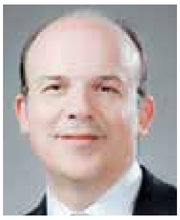

Michael Andrew,
Global Chairman,
KPMG International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Rothschild Türkiye


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Board Director and
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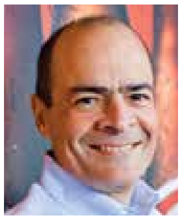
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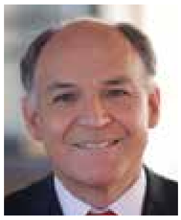
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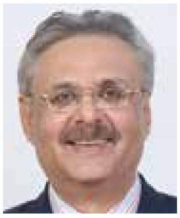
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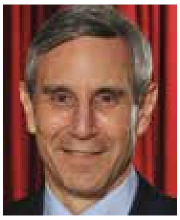
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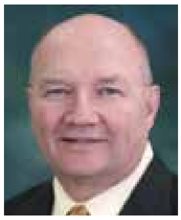
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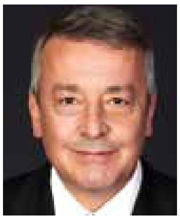
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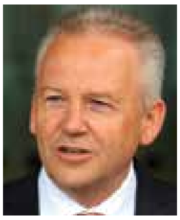
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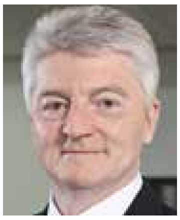
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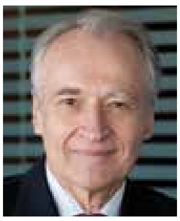
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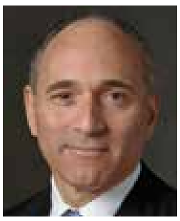
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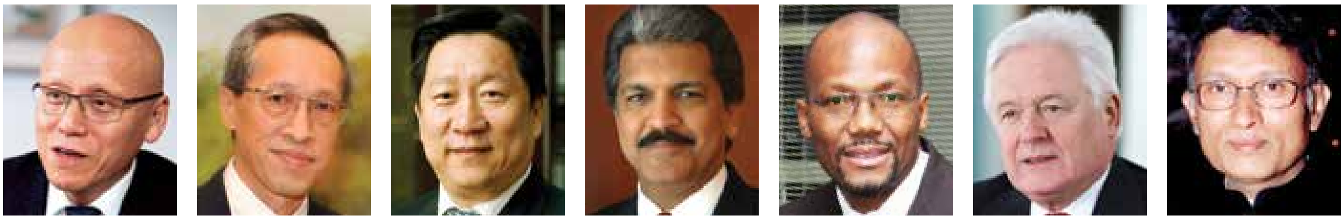

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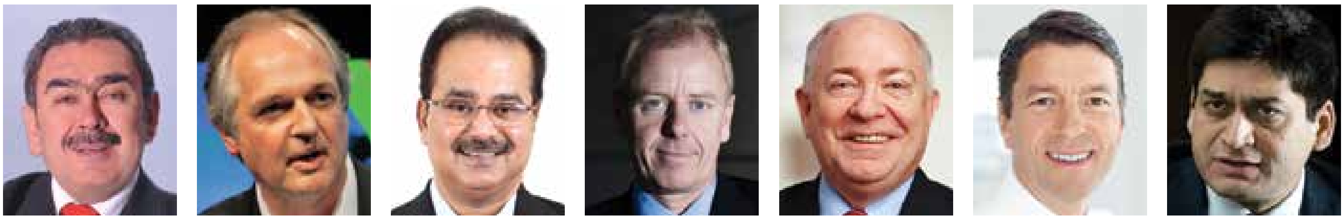

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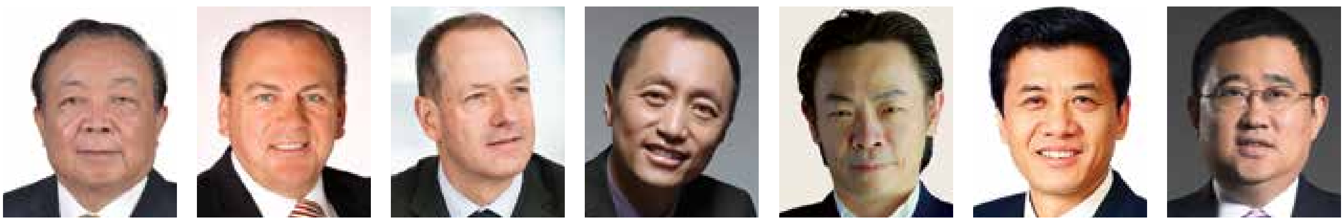

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33% **of CEOs believe that business is doing enough to address global sustainability challenges.**

Executive summary

The global economy is not on track, say CEOs—and business is not doing enough

The global economy is on the wrong track, and business is not playing its part in forging a sustainable future. This is the strong view from our study of more than 1,000 CEOs across the world: just 32% believe that the global economy is on track to meet the demands of a growing population within global environmental and resource constraints, and a clear majority—67%—do not believe that business is doing enough to address global sustainability challenges.

During the first CEO Study in 2007, business leaders appeared to be beginning to align core strategy, operations and supply chains with active efforts to improve performance on social and environmental impacts. In 2010, our conversations suggested that a new era was in sight: a summit of achievement in which sustainability—the active management of social, environmental and governance issues as a part of core business—would be embedded into companies worldwide. CEOs saw the global economy progressing towards a "peak", where markets would be aligned with the requirements of sustainable development, and sustainability leadership would be incentivized and rewarded.

But three years later, in 2013, our survey of 1,000 global CEOs, from 27 industries across 103 countries, supported by in-depth interviews with more than 75 CEOs globally—the largest study to date—reveals that business efforts on sustainability may have reached a plateau. It is clear that the corporate sustainability movement is broadening, with a deeper awareness and commitment evident in every quarter of the world, but many business leaders express doubts about the pace of change and the scale of their impact. Far from continuing to a new peak of achievement, many companies have become stuck on their ascent, unable to scale sustainability at the pace required to address global challenges and achieve business success. To build upon individual pockets of real innovation, as companies large and small find new ways to combine sustainability impact with value creation, CEOs now call for a global architecture that can enable business to scale sustainability efforts from individual, incremental achievement toward new structures and systems that can tap into the evident commitment of business leaders around the world and unlock the full potential of business in contributing to the world's most pressing challenges.

Sustainability is firmly on the CEO agenda, but CEOs express a sense of frustrated ambition

Some 63% of CEOs expect sustainability to transform their industry within five years—and 76% believe that embedding sustainability into core business will drive revenue growth and new opportunities. But underlying our in-depth conversations with CEOs is a sense of frustrated ambition. Business leaders see sustainability reshaping their business environment and are committed to reorienting their companies to take advantage as they scale up their contribution to global priorities. But even as they make progress in embedding sustainability through their business, it is becoming increasingly apparent that they are constrained by market expectations, and are struggling to quantify and capture the business value of sustainability.

In 2010, CEOs questioned as part of our study expressed a bullishness that, with action on the part of business, investors, governments and other stakeholders, markets would begin to align with sustainable development priorities. As sustainability became an ever-greater factor in determining success, CEOs were confident that business could lead the way in tackling sustainability challenges. This year's study exposes a more cautious perspective. CEOs remain convinced that sustainability will transform their industries; that leadership can bring competitive advantage; and that sustainability can be a route to new waves of growth and innovation. But beneath this commitment, frustration is clearly evident: business leaders are in many cases unable to locate and quantify the business value of sustainability; are struggling to deliver the business case for action at scale; and see market failure hindering business efforts to tackle global challenges. CEOs see business caught in a cycle of "pilot paralysis"—individual, small-scale projects, programs and business units with an incremental impact on sustainability metrics—and while they see a role for business in promoting sustainable development, their responsibilities to the more traditional fundamentals of business success, and to the expectations of markets and stakeholders, are preventing greater scale, speed and impact.

CEOs are committed to taking action on sustainability – but may be restricted by the economic climate

In many cases, business leaders feel that given the structures, incentives and demands of the market, they have taken their companies as far as they can. While a few leading companies are deepening and intensifying their commitments on sustainability, others are growing skeptical that addressing global sustainability challenges will ever become critical to their business success within current economic systems and markets. In our 2010 study, 93% of CEOs reported that sustainability would be "important" or "very important" to the future success of their business. This year, our survey of 1,000 CEOs shows an apparently similar story: once again, 93% of CEOs regard sustainability as key to success. But beneath the headline, an important—and surprising—shift emerges. In 2010, 54% of CEOs reported that sustainability would be "very important" to the future success of their business; in 2013, this figure falls to 45%. This drop is striking in the context of intensifying global challenges: a decline in the perceived importance of sustainability among global business leaders is not encouraging for those working to align business with sustainable development.

Additionally, there appears to be a refocusing—perhaps understandable in the current economic climate—among global business on short-term issues close to home. Nearly two-thirds of responding CEOs, 64%, selected "growth and employment" among their top priorities to address for the future success of their business, a reflection of the economic priorities foremost in the minds of many business leaders. Other challenges closely related to core business are also uppermost in the minds of executives: education (40%) and energy (39%) make up the top three, followed by those issues more closely tied to social and environmental development. This year, 29% of CEOs regard climate change as one of the most important sustainability challenges for the success of their business, while 18% report health to be a priority, 16% include poverty eradication among their top three issues, and 14% regard water and sanitation as an important issue for their business to address.

Business leaders see a plateau effect in sustainability—and are struggling to make the business case for action

Amid prolonged economic pressures and multi-speed recoveries, this skepticism in the influence of sustainability, and the refocusing on short-term priorities, may translate into a slackening of individual efforts to embed sustainability into core business—and a collective plateau in the impact of business on global challenges. Business, CEOs believe, is not leading on sustainability in the way that was predicted three years ago. And our data suggests a disconnect between CEOs' perceptions of global progress and their opinion of their efforts and achievements: fully 76% of CEOs are satisfied with the speed and effectiveness of execution on their own company's sustainability strategy, and nearly two-thirds believe that they are doing enough to address sustainability challenges. CEOs clearly recognize the scale of the global challenge—but may not yet see the urgency or the incentive for their own businesses to do more and to have a greater impact. This disconnect suggests that a gap persists between the approach to sustainability of the majority of companies globally—an approach centered on philanthropy, compliance, mitigation and the license to operate—and the approach being adopted by leading companies, focused on innovation, growth and new sources of value.

When asked about the barriers to further progress in embedding sustainability into their organizations, CEOs see one factor rising more than any other over the past decade: the lack of a link between sustainability and business value. In 2007, just 18% reported a failure to trace such a link; in 2010, this rose to 30%, and this year more than a third—37%—report that the lack of a clear link to business value is a critical factor in deterring them from taking faster action on sustainability.

Our conversations suggest a complex and rocky journey as companies seek to identify and quantify the business value of sustainability: those companies at the very beginning of the journey are finding it hard to make the link to value for their business, seeing sustainability instead as a primarily philanthropic or charitable enterprise. As companies mature, the opportunities for value appear boundless: if they can engage consumers, communicate with investors and forge better relationships with governments, the reward for leadership on sustainability will be lucrative.

But as companies adopt a genuinely leading position on sustainability, going beyond the demands of external stakeholders to adopt sustainability as a core element in their strategies and positioning for advantage, they once again encounter significant challenges in forging links to quantifiable business value. Despite the search for new conceptions of value—"shared value" for example—CEOs are clear that action must be justified against traditional measures of success. The more adept companies become at measuring and tracking their own sustainability performance, the more their frustration grows at an apparent inability to tie performance improvements and industry leadership to the fundamentals of business value beyond incremental gains. Signals from consumers are mixed, they discover; investor interest is patchy. During our last study in 2010, many of these companies appeared to be heading toward the peak; now, beyond a few leading companies that have struck out alone, they find themselves on a plateau, often unable to see the path to the summit.

CEOs call for a global architecture to unlock the full potential of business

In this year's study, 84% of CEOs believe that business should lead efforts to define and deliver new goals on global priority issues. Unlocking the potential of the private sector, CEOs believe, demands a step change in ambition and action: companies can have more impact on global challenges not simply individually through new products, services and business models, but collectively through innovating new systems, markets and structures. At the heart of this transformation will be a new commitment to collaboration, as businesses look beyond the firm to forge new systems that can establish a global architecture.

To move beyond the plateau and enable business to lead the way to the peak, CEOs see two essential elements on the agenda for action. First, CEOs call for active intervention by governments and policymakers, in collaboration with business, to align public policy with sustainability at global, national and local levels, including hard measures on regulation, standards and taxation. In parallel, business leaders point to the need to learn from those companies already leading the way, harnessing sustainability as an opportunity for innovation and growth, delivering business value and sustainability impact at scale.

The agenda for action: CEOs call for government intervention to align public policy with sustainability

There is strong and vocal support among CEOs for governments to play a leading role in shaping the landscape for sustainability at global, national and local levels: 83% of CEOs see an increase in efforts by governments and policymakers to provide an enabling environment for the private sector as integral to advancing sustainability. Some 85% of CEOs demand clearer policy and market signals to support green growth, and, in the context of the discussions on the United Nations post-2015 development agenda, 81% of executives emphasize the need for governments to set a policy framework for "economic development within the planetary boundaries of environmental and resource constraints" for the global economy. Business leaders believe that only with greater government intervention—at global, national and local levels—can sustainability move from sporadic incremental advances to a collective and transformative impact.

This unequivocal call for greater government intervention in the market, from 1,000 CEOs in the largest study of its kind ever conducted, may mark a watershed in the progression of corporate sustainability. The transition toward companies promoting sustainability through the business case promised a new era of market solutions to global challenges, but in the face of limited progress business leaders are beginning to express doubts over the potential for greater scale and speed without active government intervention. From our discussions, it is clear that CEOs have not lost faith in the role of business; far from it. Rather, we see a strong recognition that market rules need to be shaped to create a level playing field and a race to the top that rewards sustainability performance.

The agenda for action: Seven steps to sustainability and success

Leading companies are not waiting for policymakers to act. Our conversations with CEOs suggest that in the absence of government intervention, some are beginning to harness the potential of sustainability: moving from a reactive approach of responding to societal expectations and regulatory demands, leading companies are now driving sustainability as an engine for innovation and growth. The advances of these leading companies, and their adoption of large-scale, collaborative projects targeted directly at value creation through addressing the priorities of global sustainable development, are beginning to demonstrate how business impact can be scaled beyond incremental advances and efficiency gains.

This year, the Global Compact and Accenture study team set out to investigate the links between CEOs' attitudes and the performance of their companies against traditional business performance metrics and sustainability leadership indicators. To our knowledge, this is the first time that this has been undertaken with a CEO-level group. While extensive work has been done on the correlations between a commitment to sustainability and traditional metrics of business performance,[4] the CEO Study presents a unique opportunity to examine how business leaders' beliefs, attitudes and behaviors influence their strategies and investments, as well as set the trajectory of their companies in driving advantage through sustainability.

An examination of survey responses from those companies covered by this year's study and by Accenture's long-term High-Performance Business research program produces the early indications of a potentially striking conclusion. CEOs of companies that combine externally-recognized sustainability leadership with market-leading business performance, as measured by traditional metrics including revenue growth, profitability and shareholder returns, approach sustainability in markedly different ways to those who are failing to achieve this distinction—with different motivations, different influencers and different areas prioritized for investment, innovation and action.

Transformational Leaders are approaching sustainability differently, providing a model for greater impact and value creation

Together with the insights from our in-depth conversations with CEOs, our findings may begin to lay the foundations of a deeper understanding of how companies can drive sustainability to competitive advantage. At its heart is a different approach, moving beyond reactive, incremental responses to external pressures and toward a new understanding of sustainability as an opportunity for innovation, competitive advantage, differentiation and growth. Leading CEOs are already uncovering strategies for sustainability that allow them to deliver both value creation for their companies and impact on global challenges; they are not waiting for others to act, but are actively creating real value for consumers, investors and society. From our research, CEOs see seven key themes that can guide their own thinking and actions, as well as transforming their companies' strategies, business models, value chains and industries in order to achieve sustainability leadership and high performance.

1. Realism & context

Understanding the scale of the challenge—and the opportunity.

Throughout our interviews, it was clear that companies taking the most ambitious action on sustainability were also the most realistic about the scale of the challenge—and are more likely to admit that business is not doing enough. Understanding the challenge also allows these companies to appreciate the opportunity for future growth in providing solutions to sustainability issues and to target strategies to achieve it.

2. Growth & differentiation

Turning sustainability to advantage and value creation.

One of the clearest insights from this year's study is the emergence of a two-speed world in sustainability, between those companies still reacting to external expectations on sustainability and focusing on incremental mitigation, and those that see sustainability through the lens of growth and differentiation. For leading companies, many CEOs told us that the urgency of global challenges provides an opportunity to differentiate their products and services; to access new market segments; and to grow into new regions, countries and areas where their products can meet a pressing need.

3. Value & performance

"What gets measured gets managed."

From carbon emissions to water footprints, tracking environmental measures is now commonplace across industries. Our research suggests that, for companies seeking to go beyond incremental change and tackle global sustainability issues, the challenge is two-fold: not just to measure and manage metrics of reduction and mitigation, but also to quantify the value of sustainability initiatives and more sustainable business models to the company, and to track their impact on the communities in which they operate.

4. Technology & innovation

New models for success.

Our data suggests that leading companies are turning to innovation and technology. Environmental and resource constraints, and growing social pressures, are acting as a stimulus for innovation. From investment in renewables, to intelligent infrastructure enabled by machine-to-machine communications technology, to new closed-loop business models, leading companies are securing business advantage through innovative R&D and the deployment of technologies ranging from cloud computing to analytics.

5. Partnerships & collaboration

New challenges, new solutions.

We have seen a growing confidence from CEOs over the last decade that business can provide solutions to tackle global challenges. This year, in the context of intensifying pressures and flagging efforts, CEOs more readily acknowledge the role of collaboration and partnerships in meeting their ambitions on sustainability. Business can lead the way, they believe, and can maximize companies' impact through close partnerships with governments, policymakers, industry peers, consumers and NGOs.

6. Engagement & dialogue

Broadening the conversation.

Business leaders are increasingly conscious of the need to establish a constructive, two-way dialogue with consumers and local communities; regulators and policy makers; investors and shareholders; employees and labor unions. Rather than simply acting and then communicating, CEOs are actively engaging stakeholders to negotiate the role of their business in addressing global challenges.

7. Advocacy & leadership

Shaping future systems.

Leading CEOs are clear that business efforts are not sufficient to set the global economy on track—but believe strongly that business should lead the way toward defining and delivering a sustainable global economy, not least through the post-2015 development agenda. They are realistic that individually they can only have so much impact, but recognize a need to play a part in collaborative solutions with governments and other stakeholders. Business leaders' advocacy and public commitment will be integral to further progress.

Architects of a better world: Aligning business action with global priorities

In our 2010 study of CEOs participating in the Global Compact, we investigated individual companies' progress in integrating sustainability into core business and turning environmental, social and governance issues to business advantage. As we approach the target year of the Millennium Development Goals in 2015 and turn our attention toward the leading role that business can play in defining and delivering the post-2015 development agenda, CEOs believe that we should judge progress by a different standard.

While we can celebrate the individual achievements of sustainability leaders pushing the boundaries of what is possible within current structures, markets and industry models, there is a growing recognition that even the success currently achieved by the most advanced companies is happening within an unsustainable system. As business leaders across the world come together this year to set out an architecture to align business action with global priorities, there is a clear and unequivocal call for greater ambition, greater speed and greater impact.

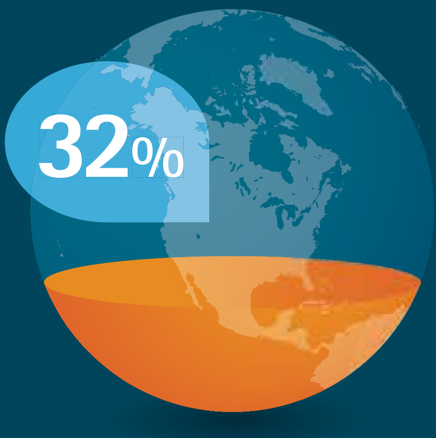
CEOs see the Global Compact at the center of this architecture. The Global Compact now comprises nearly 8,000 companies and 4,000 civil society organizations, making it the largest corporate sustainability initiative in the world today. But numbers tell only a part of the story. Through the Global Compact, issue platforms have taken shape on women's empowerment, children's rights, climate and energy, water management, and anti-corruption; its Women's Empowerment Principles and Caring for Climate initiatives, for example, are the world's largest business platforms for action on these issues. In this year's survey, the Global Compact's role in collecting and sharing good practice examples, developing tools and guidance materials, and establishing platforms for collective action are the most powerful actions called for by CEOs, signifying a recognition that to accelerate progress and achieve greater impact, companies will have to learn from others within and across industries and actively collaborate "on the ground."

CEOs are unequivocal in their belief that the global economy is not on the right track—and that business is not doing enough to address global sustainability challenges. They see their companies stuck on a plateau of good intentions, uncertain of the way to the summit. But among sustainability leaders, we can see the beginnings of a collaborative, systems approach to sustainability, focused on the impact business can make. These companies are seizing opportunities at speed through building skills, measuring value and performance, and improving the dialogue with consumers, investors and governments. In the innovations of these leaders, we can see the seeds of a new approach to sustainability, with pockets of real innovation beyond the four walls of the firm: collaborating within and across industries and sectors, and working closely with stakeholders to develop the beginnings of transformational change that can unlock the full potential of business in contributing to global priorities.

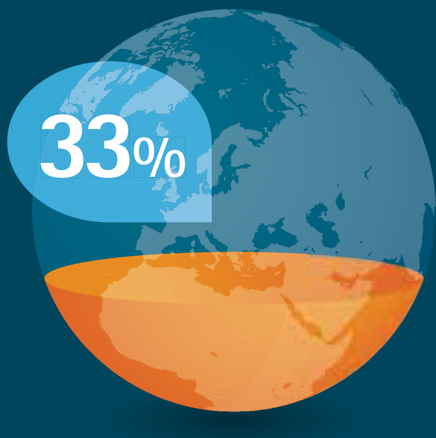
By the numbers

A New Global Architecture

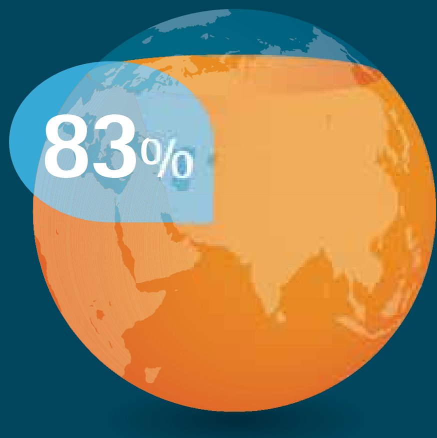
Our survey of 1,000 CEOs across 103 countries and 27 industries gives a unique insight into business leaders' views on the pathway towards a sustainable economy.



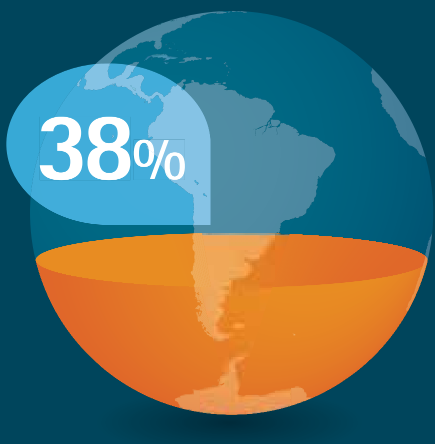
32% of CEOs believe that the global economy is on track to meet the demands of a growing population



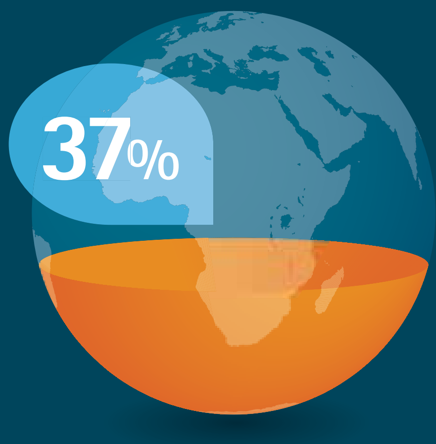
33% report that business is making sufficient efforts to address global sustainability challenges



83% of CEOs believe that government policymaking and regulation will be critical to progress



38% believe they can accurately quantify the value of their sustainability initiatives



37% see the lack of a link to business value as a barrier to accelerating progress

Seven Steps to Sustainability and Success

This year, unique insights from CEOs, supported by analysis from Accenture's High-Performance Business research, have identified seven themes that are enabling leading companies to achieve both value creation and impact on global sustainability challenges.

1 **Realism & context:**
Understanding the scale of the challenge—and the opportunity

2 **Growth & differentiation:**
Turning sustainability to advantage and value creation

3 **Value & performance:**
"What gets measured gets managed"

4 **Technology & innovation:**
New models for success

5 **Partnerships & collaboration:**
New challenges, new solutions

6 **Engagement & dialogue:**
Broadening the conversation

7 **Advocacy & leadership:**
Shaping future systems

Chapter 1

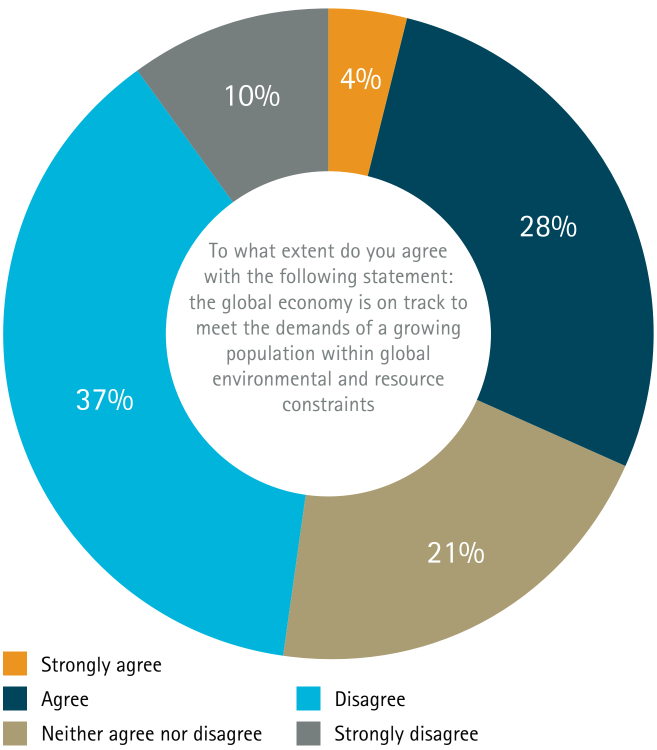
The scale of the challenge: The road to transformation

Sustainability is firmly on the CEO agenda, but CEOs are not satisfied with business progress

Our survey of 1,000 global CEOs, from 27 industries across 103 countries, reveals that business leaders are not satisfied with business progress in tackling global sustainability challenges. Just 32% believe that the global economy is on track to meet the demands of a growing population within global environmental and resource constraints, and a clear majority—67%—do not believe that business is doing enough to address global sustainability challenges.

Through the lifespan of this study, first commissioned by the Global Compact in 2007 to examine progress since the millennium,[5] sustainability has become integrated into the mainstream business strategy and operations of many companies worldwide. The Global Compact has grown to include nearly 8,000 companies and over 100 local networks worldwide, a testament to progress in broadening the corporate sustainability movement and to business leaders' commitment. CEOs are near-unanimous in their belief that the environmental, social and economic challenges posed by unsustainable growth will directly affect their company's ability to do business—93% of CEOs surveyed believe that environmental, social and governance issues will be "important" or "very important" to the future success of their business—and believe strongly that business should lead the way in addressing global challenges.

Figure 1: CEOs do not believe that the global economy is on track to meet the needs of a growing population within planetary boundaries



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

Back in 2010, our interviews with Global Compact CEOs demonstrated how companies were responding to sustainability pressures, and how leaders and innovators were driving business advantage through sustainability.[6] Our conversations suggested a strong belief among business leaders that a new era was in sight: a summit of achievement in which sustainability would be embedded into companies worldwide and global markets would align to price in sustainability, allowing businesses to play the leading role as the innovators of a new wave of social, economic and environmental development.

Three years later, it has become clear that business efforts on sustainability may have reached a plateau where further progress is unlikely without significant structural changes in global markets. Far from continuing to the peak, many companies have become stuck on their ascent, unable to scale sustainability at the pace required to address global challenges.

The pace of change is not addressing intensifying global challenges

Evidence suggests that the prospect of a sustainable economy is receding. If we continue on a business-as-usual trajectory, it is predicted that by 2050 we will need 2.3 planets' worth of ecological resources to support a population of more than 9 billion.[7] The world will face a 40% global shortfall in water between forecast demand and available supply by 2030.[8] And we will need up to 11% per annum reductions in energy intensity on every global dollar of economic output, everywhere, every year until 2050, to reach the 450 parts per million (ppm) upper target for atmospheric carbon dioxide established in 2007 by participants on the Intergovernmental Panel on Climate Change.[9]

Despite growing recognition that sustainability issues will be instrumental in determining the winners and losers of tomorrow, and deepening commitment on the part of many of the world's largest companies, the pace and scale of efforts to date suggest that—even judged by the most positive scenario—the global economy is on a journey to what has been termed a "magnetic north" of incremental change, rather than toward the transformative "true north" of a sustainable economy.[10]

Energy & climate change: Growing costs, flagging efforts

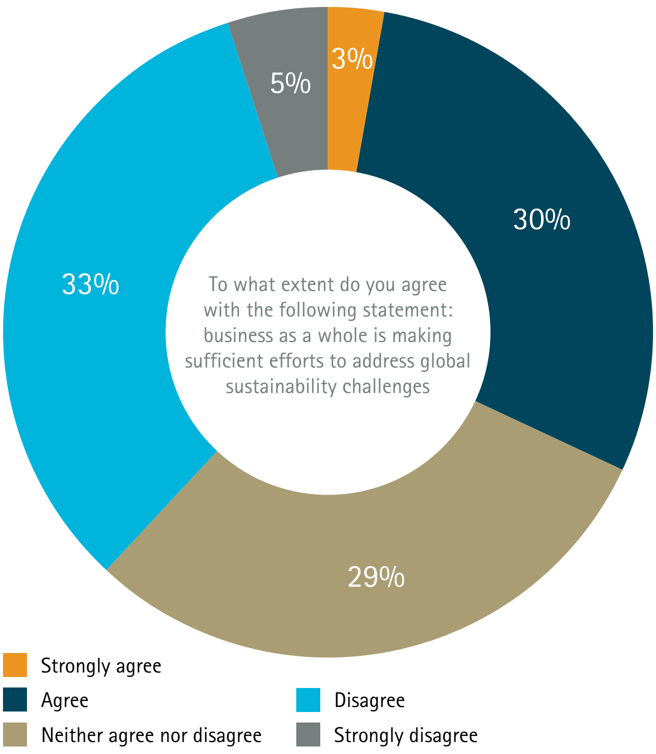
In May 2013, for the first time in human history, the concentration of carbon dioxide in the atmosphere passed the milestone level of 400 ppm.[11] And despite government agreements to limit the rise in global average temperature to 2 degrees Celsius, the International Energy Agency (IEA) warned in 2012 that, on current emissions trends, average temperatures will rise by 6 degrees Celsius by the end of the century.[12]

In 2012, researchers estimated that the cost of climate change and air pollution combined will rise to 3.2% of global GDP by 2030. The world's least developed countries are forecast to bear the brunt, suffering losses of up to 11% of GDP. And the impacts are already being felt: the authors estimate that climate change is contributing to the deaths of nearly 400,000 people a year and costing the world more than $1.2 trillion, wiping 1.6% annually from global GDP.[13]

Against this backdrop of intensifying challenges and an unstable geopolitical environment in many of the world's most significant energy-producing regions, business efforts are lagging behind what climate science dictates will be required. In its report Tracking Clean Energy Progress 2013, the IEA judged that the world was on track to deliver just two of its 11 key indicators of progress toward a low-carbon economy.[14] The report concluded that "for a majority of technologies that could save energy and reduce carbon dioxide emissions, progress is alarmingly slow."[15]

Even for those indicators judged to be on track—the IEA's "lights in the dark," such as the generation of renewable power—sustained deployment and supportive policy frameworks will be required to harness investment and align market incentives with business action. While current market incentives promote a new 'dash for gas' as the shale revolution transforms the energy landscape, the IEA estimates that to meet carbon targets, the world needs to generate 28% of its electricity from renewable sources by 2020 and 47% by 2035, yet renewables currently represent just 16% of global electricity supply.[16] And despite growth in renewables, and improvements in energy management and efficiency, carbon intensity remains largely static: the IEA Energy Sector Carbon Intensity Index (ESCII), which tracks how many tonnes of carbon dioxide are emitted for each unit of energy supplied, shows that "the global aggregate impact of all changes in supply technologies since 1970 has been minimal,"[17] falling by less than 1% since 1990. To meet targets that would limit global warming to 2 degrees, the IEA estimates that the ESCII needs to break a 40-year stable trend and that carbon intensity needs to be reduced by 5.7% by 2020, and 64% by 2050.[18] Similarly, PwC's annual Low Carbon Economy Index talks of a "critical threshold," where the economy now requires an improvement in carbon intensity of 5.1% per year. Not since World War II, the report points out, has the world achieved that rate of decarbonization, yet the task now is to achieve and sustain that rate for 39 consecutive years.[19]

Figure 2: CEOs do not believe that business is doing enough to address sustainability challenges



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

Livelihoods, health and prosperity: Gradual progress, bolder action

Slow progress is not limited to advances in environmental sustainability. An analysis of food and agriculture, and water and sanitation—with energy and climate, the foundations of the 'Resource Triad' identified by Global Compact CEOs as critical to post-2015 development [20]—suggests that global solutions are not keeping pace with the scale of the challenge.

Rising populations are placing ever greater strain on global food production. By 2030, the UN estimates, demand for food globally will increase by 50% (70% by 2050).[21] Against this growing demand, the rate of growth on agricultural yields is slowing, from 2% per year in the two decades from 1970 to 1990, to just 1%, 1990-2007.[22] Climate change is affecting the security of food supply, bringing greater volatility to prices and drawing millions each year into malnutrition: despite strong progress since the adoption of the Millennium Development Goals in 1990, nearly a billion people in the world remain chronically undernourished.[23]

Livelihoods also depend on water security. As population growth, urbanization and climate change impact on the world's ability to access clean water, the United Nations estimates that two-thirds of the world's population will live in water-scarce or water-stressed regions by 2030. With global water use projected to increase by 50% in the next decade,[24] new solutions will be integral to meeting the needs of a growing population.

Solving these challenges will underpin efforts to reduce poverty and improve livelihoods. Despite success in reaching the Millennium Development Goal to halve the number of people living in extreme poverty by 2015, in April 2013 Gyan Chandra Acharya, the UN undersecretary general for the least developed countries, noted that half the population of the world's 49 poorest countries is still living on less than $1.25 a day, the level defined by the World Bank as "extreme poverty."[25] Poverty and hunger are particularly acute in children: more than 100 million children under five—nearly one in six globally—are estimated to be undernourished and underweight.[26] Even in the world's richest countries, child poverty persists: estimates suggest that nearly a quarter of children in the United States live below the poverty line.[27]

Progress is being hindered by the crisis of sovereign debt and continued pressures on public finances, demonstrating the limitations of state-led poverty relief and the imperative for business to scale up its impact. The Organisation for Economic Co-operation and Development (OECD) estimates that overseas development aid fell by 4% in real terms in 2012 to $126 billion, following a 2% fall in 2011. The poorest countries sustained a disproportionate impact: bilateral net overseas development aid to the least developed countries fell by 12.8% in real terms, to about $26 billion.[28]

CEOs may be overconfident in their own efforts—but acknowledge that more needs to be done

With the Millennium Development Goals set to expire, and as discussions begin on the post-2015 agenda, 84% of CEOs in our study believe that business should lead efforts to define and deliver on future development priorities—but only 33% believe that business is currently doing enough. As one European CEO told us, "I'm always surprised how conservative discussions on sustainability are: we often try to defend the situation of the past, but the challenge for all of us is not to waste time in delaying necessary change."

CEOs believe that business should play a leading role in enabling progress against global priorities: through finding solutions to the interlinked challenges of energy, food and water, through investing in technology and global infrastructure, or through bringing employment and prosperity to the communities in which they operate. They also see a role for business in securing the enabling environment that will underpin sustainable development efforts: upholding good governance, labor standards, gender equality and respect for human rights; maintaining peace and stability; promoting education and health; proactively fighting corruption and promoting greater transparency.

Nevertheless, our data suggests a disconnect between CEOs' perceptions of global progress and their opinion of their own efforts and achievements: 76% of CEOs report that they are satisfied with the speed and effectiveness of execution on their own company's sustainability strategy, and nearly two-thirds believe that they are doing enough to address sustainability challenges. CEOs clearly recognize the scale of the global challenge, but may not yet see the urgency or the incentive—or the potential—for their own businesses to do more. This disconnect suggests that a gap persists between the approach to sustainability of the majority of companies globally—an approach centered on philanthropy, compliance, environmental mitigation and the license to operate—and the approach being adopted by leading companies, focused on greater impact on a broader set of environmental, social and economic issues, and viewed through the lens of innovation, growth and new sources of value.

Business leaders see a market failure in sustainability—and call for greater ambition

This year's study exposes a more cautious perspective. CEOs remain convinced that sustainability will transform their industries; that leadership can lead to competitive advantage; and that sustainability is a route to new waves of growth and innovation. But beneath this commitment, a frustration is clearly evident: business leaders are struggling to make the business case for action, and they see a significant market failure hindering business efforts to tackle global challenges. As one CEO told us, "Business needs a greater clarity of purpose: there is a lot of willingness to support sustainability efforts, but a total lack of clarity on what business should do and why. We need a plan that is progressive enough, and rigorous enough, to set real priorities for action."

Throughout our conversations, CEOs echoed a similar sentiment: business, they believe, is not leading on sustainability, and market forces are not aligning in the way that was predicted three years ago. In many cases, business leaders feel that given the structures, incentives and demands of the market, they have taken their companies as far as they can. Beyond a small group of innovators directly monetizing sustainability through new products and services designed to improve energy efficiency and cut carbon emissions, business leaders are finding discretionary efforts unrewarded. CEOs see business caught in a cycle of "pilot paralysis"—individual, small-scale projects with an incremental impact on sustainability metrics—and while they see a role for business in promoting sustainable development, their responsibilities to the fundamentals of business success are preventing greater scale, speed and impact.

To better align business ambition with impact on global sustainability challenges, CEOs believe, action will be required not only in reshaping a new architecture for corporate sustainability, but also in linking sustainability tangibly and quantifiably to value creation, moving at scale and speed beyond pilot projects of incremental improvement toward transformational change. Only by being more ambitious, CEOs believe, can they begin to reshape their industries, align market forces with sustainable development, and continue on their journey to the summit.

Understanding the scope of sustainability

Throughout this report, we use the term "sustainability" to encompass environmental, social and corporate governance issues, as encapsulated in the Global Compact's Ten Principles. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

38% **of CEOs report that they are able to accurately quantify the business value of their company's sustainability initiatives.**

Chapter 2

CEOs on leading inward: Turning ambition into action and advantage

Sustainability issues may be slipping down the agenda for CEOs

In the 2010 study, 93% of CEOs reported that sustainability would be "important" or "very important" to the future success of their business. This year, our survey shows an apparently similar story: once again, 93% of CEOs regard sustainability as key to success.

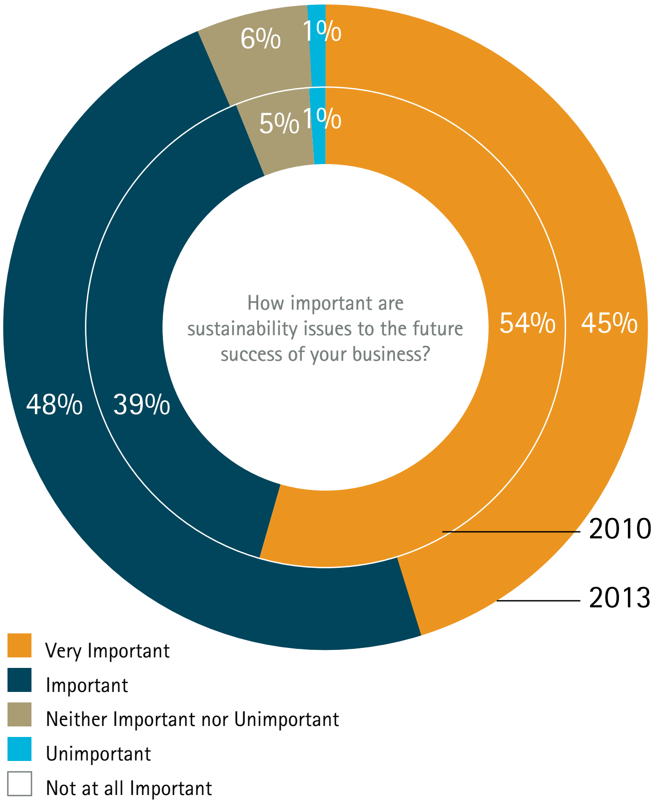
But beneath the headline, an important—and surprising—shift emerges. In 2010, 54% of CEOs reported that sustainability would be "very important" to the future success of their business; in 2013, the figure drops to 45%. This drop is striking in the context of intensifying global challenges: a decline in the perceived importance of sustainability among global business leaders, while perhaps understandable in the current economic climate, is not encouraging for those working to align business with sustainable development.

Our data suggests that we may be seeing the emergence of a "two-speed world" on sustainability. In 2010, CEOs believed that the pressures of sustainability were reshaping their industries for good, and that markets would eventually align global challenges with business objectives. This year, however, many CEOs express frustration at the pace of change. While a few are deepening and intensifying their commitments on sustainability, others are growing skeptical that addressing global sustainability challenges will ever become critical to their business success within current economic systems and markets. In the context of prolonged economic pressures and multi-speed recoveries, this skepticism may translate into a slackening of individual efforts to embed sustainability into core business—and a collective plateau in the impact of business on global challenges.

As in 2010, there is significant variation by industry. This year, we see a universal belief in certain sectors that sustainability will be important to future success. CEOs in utilities report, without exception, that sustainability issues will be "important" or "very important" to their success, as resource scarcity, commodity volatility, and the increasing demand for smart infrastructure and intelligent cities have established sustainability firmly among CEOs' priorities. The same is true in the banking sector, as the collapse in public trust after the financial crisis forces banks to make the case for business as a positive force in the global economy, and companies see future opportunities in extending services to the growing middle class in high-growth economies.

In Brazil, for example, state-owned bank Caixa Economica Federal is working with the government to address the Brazilian housing deficit with a project called *Minha Casa Minha Vida* (My House, My Life). Launched in 2009, the program is designed to help low-income Brazilian families to afford their own home.

Figure 3: 93% of CEOs believe that sustainability will be important to the future success of their business



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

As a key part of the government's $500 billion program for the Acceleration of Growth (PAC), more than 2 million homes will be built in a joint effort involving the state, local municipalities, companies and nonprofit organizations. Caixa, which holds 70% of the Brazilian housing financing market, has invested more than $30 billion, providing low-income loans and payment protection to support a program which has played a critical role in restoring favela communities across the country.[29] With the success of the first phase, the government has recently doubled its original target for new homes, with a further investment of more than $40 billion to deliver 2 million new homes by 2014.[30]

Two sectors, communications and infrastructure, stand out as the fastest risers from 2010 in recognizing the importance of sustainability to success, as market demand enables leading companies to better align their efforts with value creation through revenue, cost, brand and risk management. Among CEOs in communications, 96%, up from 81% in 2010, see sustainability as critical to success, and many leading companies perceive an opportunity for innovation and growth. Safaricom, whose M-PESA initiative has long been regarded as a leading example of the transformative potential of mobile technologies, has now partnered with the developers of M-KOPA. Based on a credit-sale model, where purchasers make a small initial deposit followed by daily payments for up to a year, M-KOPA enables low-income households to afford a solar lighting and mobile charging system for their home. As of May 2013, M-KOPA has reached 15,000 Kenyan households previously dependent on kerosene lighting, and it is adding close to 1,000 new customers every week.[31] In the words of Safaricom for example, CEO Bob Collymore, "There's a fast shift in our industry from compliance to an opportunity to transform lives."

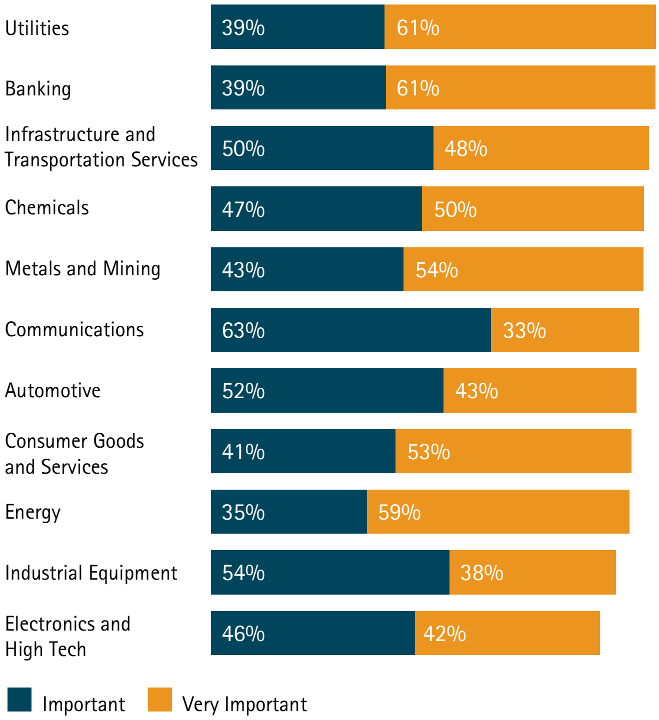
Similarly, 98% of executives in the infrastructure and transportation sector (from 89% in 2010) see these issues as a priority, perhaps reflecting the shifting priorities of green investment in public infrastructure and the growing market for smart solutions. As one CEO in the sector told us, "Strong companies saw innovation and differentiation on sustainability as their way out of the crisis, so the downturn has not hindered our progress." European engineering and electronics giant Siemens, for example, has achieved strong growth throughout the downturn through its focus on innovative technologies that enable the transition toward clean energy and intelligent infrastructure. The company has provided more than half of the installed capacity of offshore wind turbines globally, saving 4 million tonnes of carbon dioxide (CO_2) annually compared with traditional sources of power generation.[32] Additionally, Siemens' energy portfolio includes smart grid technologies that help to address the growing pressures faced by power utilities to modernize their grids. Last year, revenue from Siemens' Environmental Portfolio—its fastest-growing business unit—climbed 10% to€33 billion and now accounts for 42% of the company's total business. During that year alone, offerings from the portfolio enabled customers to cut CO_2 emissions worldwide by 332 megatons—an amount equal to 40% of Germany's total annual emissions.[33]

Through our interviews, we can also discern strong progress in two other sectors: the chemicals industry, where innovation that can address the environmental concerns of customers while reducing costs is growing as a differentiator, and the insurance sector, where the scope and scale of sustainability-related risk is fast emerging as a source of competitive advantage for insurers. Zurich Insurance Group, for example, recognized an opportunity to make a collective impact on flood resilience programs by partnering with the International Federation of Red Cross and Red Crescent Societies. This five-year alliance aims to take resilience programs to scale and contribute to shaping the agenda of policy and decision makers. For its part, Zurich is undertaking a review of flood underwriting strategy to gain a deeper understanding of the causes of flooding and of weather risks associated with climate change.[34] The initiative thereby contributes to the collective knowledge of the alliance while building business advantage. As Zurich's CEO Martin Senn told us, "The world is more complex, and risks are more interconnected; but a complex world is an opportunity, if you can deal with its complexity."

CEOs in other sectors are more equivocal on the centrality of sustainability. Almost all the major sectors tracked in our study display a marked fall since 2010 in the proportion of chief executives who see sustainability as "very important": from 62% to 43% in automotive; from 63% to 53% in consumer goods; from 68% to 59% in the energy industry; and from 68% to 61% in the utilities sector—a reflection of competing priorities, of economic pressures, and perhaps of a growing skepticism in the potential impact of sustainability pressures on industry economics and measures of success.

Figure 4: CEOs' perception of the importance of sustainability varies by industry

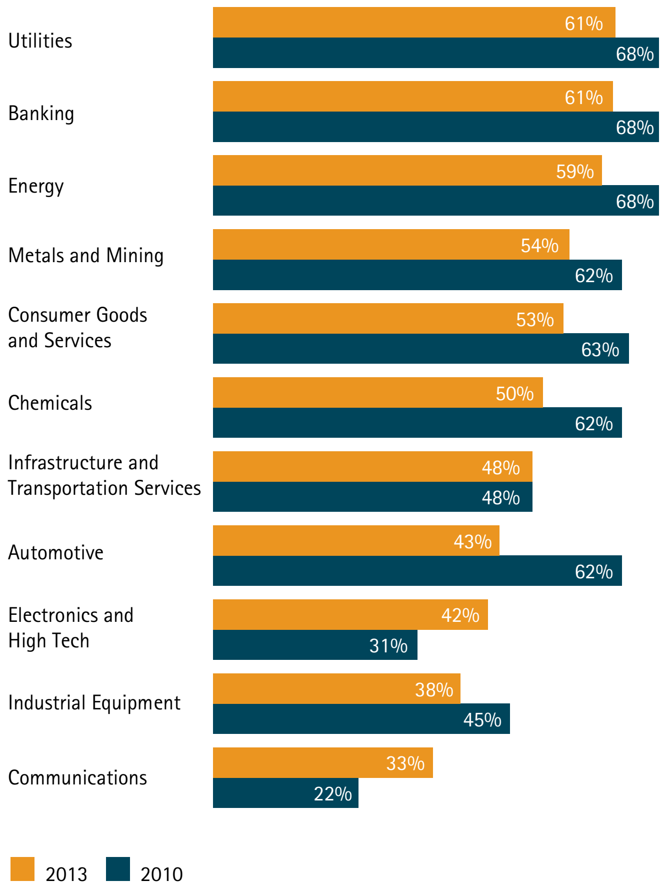
How important are sustainability issues to the future success of your business?



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

Figure 5: In many industries, there is a marked decline in the proportion of CEOs who see sustainability as "very important" to success

How important are sustainability issues to the future success of your business?



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

Economic pressures continue to hinder efforts to advance sustainability

In 2010, asked about the most significant barriers to advancing sustainability, CEOs identified the challenges of competing strategic priorities and the complexities of integration and implementation across their companies. This year, as many companies are still feeling the effects of the prolonged economic downturn, our research suggests that these impacts may be hindering their efforts to make progress on sustainability more than previous challenges. More than half (51%) of business leaders surveyed report that a lack of sufficient financial resources has been a barrier to implementing an integrated and company-wide approach to sustainability, the single largest barrier identified by our group of 1,000 CEOs.

The apparent decline in the importance of sustainability to CEOs may reflect the economic pressures that many companies still feel in the wake of the global downturn, and regional differences may reflect a "three-speed" global recovery. Just 34% of CEOs based in Europe, for example, report that sustainability will be "very important" to the success of their business, a striking fall from the 48% in 2010. The perception that sustainability issues will be "very important" rises to 52% among CEOs in Asia, 61% among those in Latin America, and 68% in Africa. While this may represent the "lens of proximity" at work—a heightened perception of sustainability issues when their impacts are close by and immediate—our conversations suggest that the economic downturn has affected the standing of sustainability relative to other pressing priorities. In the United States, where the rise of shale gas and the potential for a revolution in domestic energy production have boosted short-term economic prospects, sustainability remains at the top of the agenda for 57% of CEOs, largely unchanged from the 59% in 2010.

Additionally, our conversations suggest that sustainability continues to be pigeonholed as a marginal issue, still regarded by many companies as an extra cost to be cut in the face of short-term financial pressures, rather than as a core part of strategies to generate value through revenue growth, cost reduction or brand impact: some 40% of CEOs report that economic conditions have made it more difficult to embed sustainability into core business. And just 33% of European business leaders, for example, see the downturn as a spur to increase their company's focus on embedding sustainability into core business: "Green growth has been sidelined by the economic crisis, and environmental issues are taking a back seat," Axel Weber, chairman of UBS, told us. "The effects might not be immediate, but five years down the road the slowdown will become apparent."

The impact of the economic slowdown is not limited to Western economies. Growth is slowing in many Asian and Latin American economies, too, and many companies are feeling pressure to refocus on short-term survival. As one senior director told us, "We are concentrating on strategies for today, not strategies for tomorrow." One business leader talked of a "reversal" of globalization, as the promise of free markets, free trade and the free movement of capital is undermined by economic protectionism. Some see an uncomfortable choice emerging, between slower, green growth—leading to disappointed expectations of economic development and the prospect of civil unrest—and accelerated growth with ever-growing impacts on climate change and the environment.

CEOs' priorities are shifting and are refocusing on issues close to home

The impact of economic pressures is also evident when CEOs are asked which challenges are the most critical to address for the future success of their business. Nearly two-thirds of CEOs, 64%, selected "growth and employment" among their top priorities to address for the future success of their business, a reflection of economic priorities foremost in the minds of many business leaders. Other challenges related to core business are also uppermost in the minds of executives: education (40%) and energy (39%) make up the top three, followed by those issues more closely tied to social and environmental development. This year, 29% of CEOs regard climate change as one of the most important sustainability challenges for the success of their business, while 18% report health to be a priority, 16% include poverty eradication among their top three issues, and 14% regard water and sanitation as an important issue for their business to address.

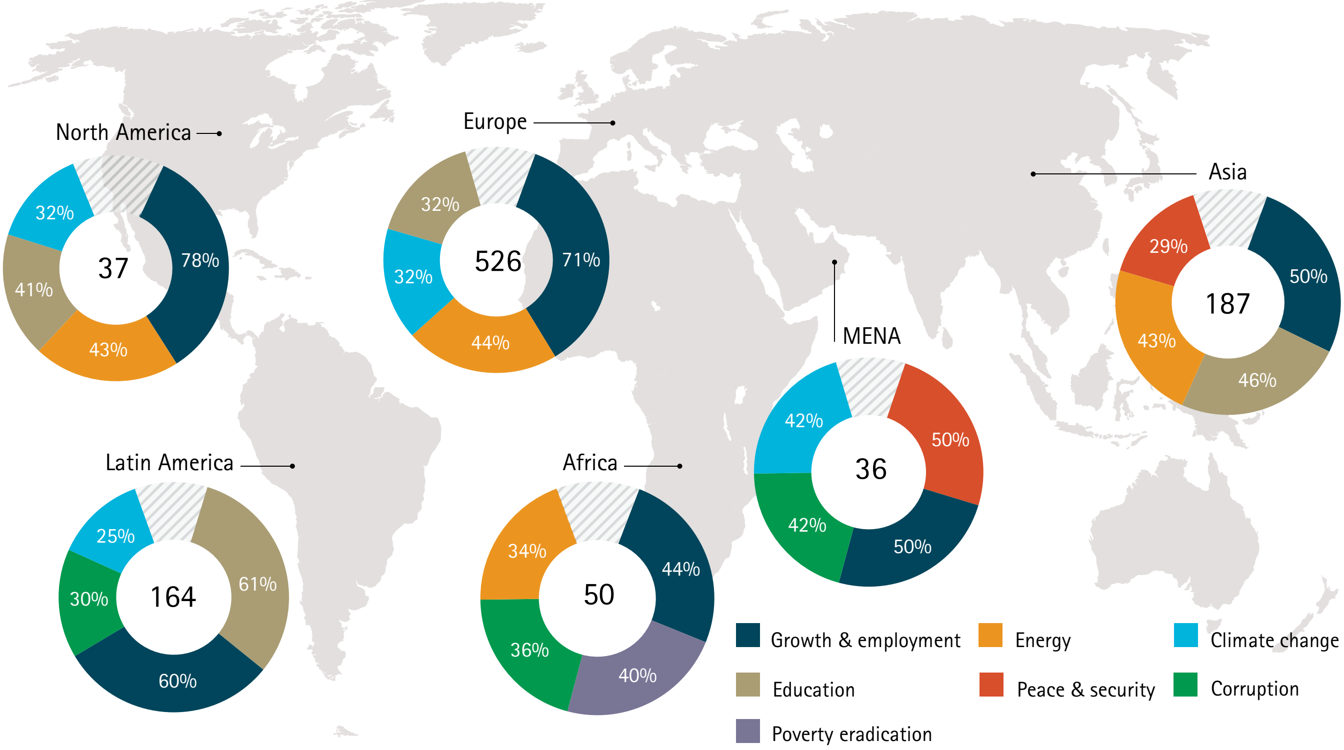
The immediacy of sustainability challenges is again reflected here: 61% of Latin American business leaders see education as a critical challenge; 27% of Asian CEOs consider health a key priority; and 40% of those in Africa see poverty eradication as a critical element in ensuring their company's success. As one CEO in Africa told us, "We measure our success not by the profit we make, but by the difference we make."

Despite economic challenges, it is clear that CEOs globally see the long-term health and prosperity of local communities as integral to strategy. As John McFarlane, chairman of Aviva, said, "For our businesses to do well, we need the economies we're in to do well." Global pharmaceutical company Novartis, for example, in 2007 launched Arogya Parivar ("healthy family" in Hindi), a for-profit social initiative developed to provide a new health services delivery model in rural areas of India. The value proposition for patients is that they receive complete treatment at an affordable, fixed price through a dependable network; for Novartis, the program become profitable within 30 months, and since 2007, sales have increased 25-fold. This program has resulted in improved access to medicine for 42 million people in 33,000 villages, and the company aims to extend its reach to 100 million people in India, as well as launching similar programs in Vietnam, Kenya and Indonesia.[35]

Notwithstanding the evidence of initiatives by leading companies, there appears to be a "refocusing" among global business on short-term issues close to home. Globally, this refocusing toward those issues most closely tied to traditional measures of business success should not be taken as evidence that chief executives do not appreciate the importance of social and environmental challenges. Instead, it should sound a note of caution on the degree to which development priorities are reflected in market incentives, and on the pace of change in global markets internalizing sustainability issues. CEOs in 2010 were confident that markets would begin to align business success with development objectives; in the context of continued recessionary pressures, however, social and environmental issues may be seen as secondary in importance in shaping the future success of their companies. This year, our data suggests that CEOs may understand the importance of social and environmental sustainability to their business, but—in difficult economic times—their focus has shifted back to traditional metrics of short-term business success, as markets fail to internalize and incentivize sustainable outcomes.

Figure 6: The immediacy of sustainability challenges is reflected in their relative importance for CEOs from region to region

Which of the following global sustainability challenges are the most critical to address for the future success of your business?



Note: Percentage represents the proportion of CEOs in each region numbering each issue among their top three most important sustainability challenges to address for the future success of their business; central figures indicate the number of survey respondents in each region.

CEOs on leadership and legacy

Throughout this year's interviews, the vast majority of CEOs were unequivocal in their belief that they have a personal responsibility to lead on sustainability. "To drive sustainability as a corporate priority," said Rafael Fontana, managing partner of the Spanish law firm Cuatrecasas Gonçalves Pereira, "senior leadership must be personally and publicly committed." And our survey data suggests that CEOs do not simply perceive a responsibility to lead within their own organizations: 82% of CEOs believe that they have a pressing responsibility to leave a clear legacy on sustainability for future generations.

In 2010, we noted a transition from personal motivation as the principal driver for sustainability, toward a business case that could justify the pursuit of sustainability as an opportunity for tangible value creation. This year, CEOs are once again speaking more of personal motivation and their legacy on sustainability—perhaps reflecting the difficulties that many companies are experiencing in constructing and quantifying the business case for action, as well as the frustration that many feel in the pace of change. As we see in our analysis of leading companies on sustainability—those going beyond the requirements and expectations of the market to adopt a leadership position—a CEO's approach and attitudes are critical in determining the importance of sustainability within an organization.

In the context of discussions around the role that business can—and should—play in defining and delivering a new set of development goals within the post-2015 agenda, it is at first glance encouraging that just 26% of CEOs believe that their role "should be limited to providing goods and services that people want and need at prices they can afford." But this lingering belief—still held by more than a quarter of Global Compact CEOs participating in a study on the business contribution to sustainability—may indicate a wider principle among the business community on the expectations and role of business.

Throughout this year's study, we have seen that, even in those companies taking a more progressive approach to sustainability challenges, CEOs believe that the expectations of the market and other stakeholders are holding them back. As one senior leader told us, "Business does not set out to do the wrong thing, but there's peer pressure, financial market pressure, and pressure from boards to satisfy markets with high expectations for the short term."

In this challenging context, personal leadership and vision will be critical. As Javier Genaro Gutiérrez Pemberthy, president of the Colombian petroleum company Ecopetrol, told us, "If you're not really committed, it's practically impossible that you can bring about the conditions needed for change." The experiences of leading companies may suggest that the old opposition of personal motivation and the business case is not a binary choice, and that the transition from one to the other is not an indication of maturity. Instead, it is apparent that personal commitment and the construction of a quantified business case are a necessary combination: as Jim Collins put it in *Good to Great*, the beauty of the "and", not the tyranny of the "or".[36] In the view of CEOs, achieving the "and" will allow companies to forge a leadership position in their industries, while placing business at the forefront of social, economic and environmental development.

Business leaders are making the case internally—but may be experiencing a plateau effect in integration

Despite economic pressures, many CEOs grasp the business opportunity in taking a leadership position on sustainability. Fully 78% see sustainability primarily as an opportunity for growth and innovation, and 80% see it as a route to competitive advantage in their industry. As Jan Jenisch, CEO of the specialty chemical company Sika AG, told us: "Sustainability is key to our strategy: we see it as an opportunity for competitive advantage in developing new products and services."

We also find that business leaders have largely been successful in making the case within their organizations: 84% of CEOs report that sustainability is now discussed and acted upon at the board level, and only 8% cite a lack of support from top management as a barrier to progress. Employees remain an important influencer, too, with 46% of CEOs citing their employees among their chief stakeholder groups in driving their approach to sustainability, the second highest-ranked stakeholder after the consumer. Our conversations demonstrate the importance of employee engagement—"giving our employees a sense that they are participating in something beyond themselves and building something unique," as Xavier Huillard, chairman and CEO of the French construction company VINCI, put it—and in attracting and securing future talent.

As we noted in 2010, sustainability is evidently a non-negotiable part of the CEO agenda. But our data suggests that, despite this strong belief in the role that sustainability has to play in determining the leaders of tomorrow, companies are experiencing a "plateau effect" in the integration of sustainability. In 2010, our research uncovered several "performance gaps" between those actions that CEOs believe should be undertaken by companies in general, and those actions that their own companies had taken: a gap between ambition and execution that was a theme in many of our conversations.

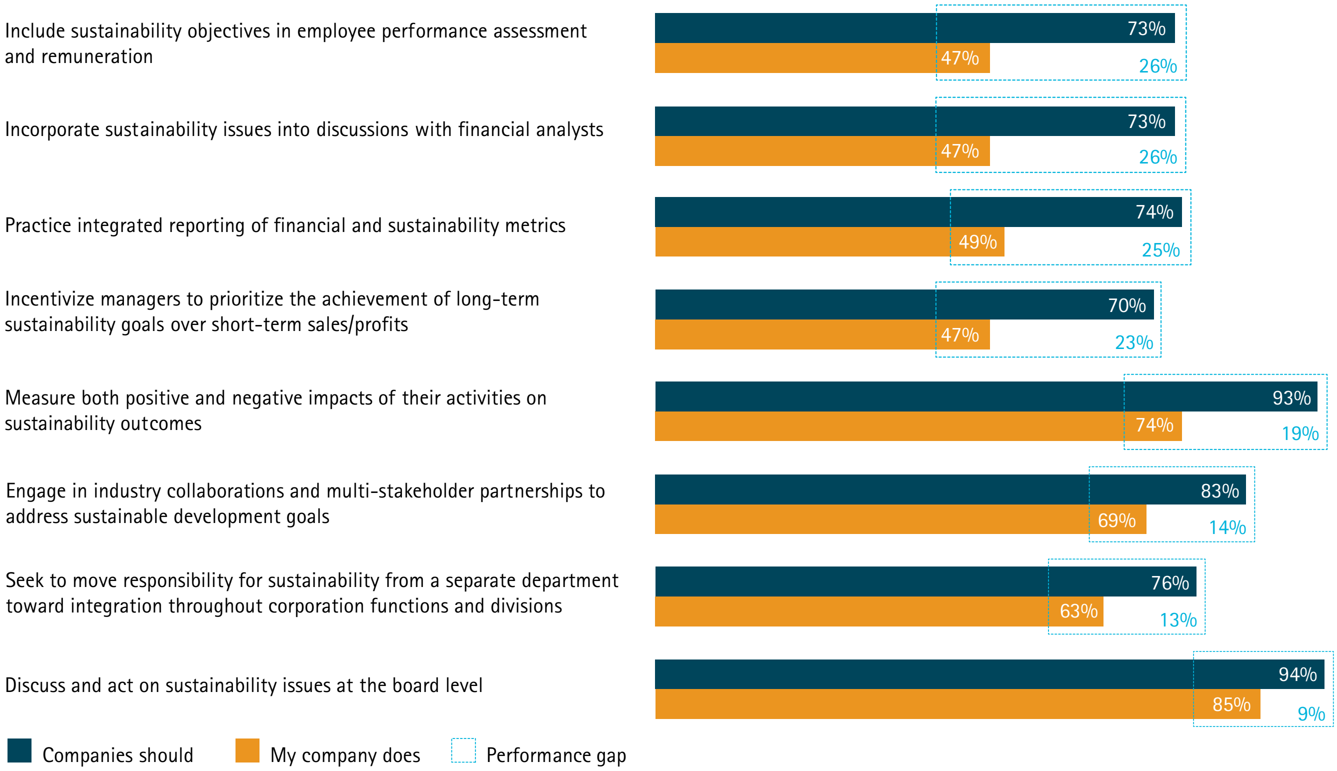
This year, companies appear to have made little progress in closing these gaps. In 2010, for example, 91% of CEOs believed that companies should measure positive and negative impacts of their activities on sustainability outcomes, with 71% reporting that they already did so; in 2013, 93% believe companies should, while 73% do so: a "performance gap" of 20 percentage points in each case.

Similarly, there has been little movement in either the proportion of CEOs who believe companies should incorporate sustainability issues into discussions with financial analysts (72% to 73%), or in those who do so (48% to 47%). We also see slow progress in other areas of integration, for example in companies' efforts to incorporate sustainability objectives into employee performance assessment and remuneration, and in forging industry collaborations to address sustainability goals.

This data should not be taken as a signal that commitment to sustainability has disappeared or that environmental, social and governance issues are no longer prominent on CEOs' agendas. But it may suggest that the pace of change is slowing as companies focus on incremental improvements: almost a quarter of CEOs responding to our survey reported that their company is incorporating sustainability as much as or less than it was five years ago. In the context of intensifying challenges, an apparent slowing in the pace of change is a cause for concern—and in the context of businesses determining their role in defining and delivering on the post-2015 development agenda, the data suggests that a step change in ambition and achievement may be required to harness sustainability as a transformative force. In the words of one CEO, "Business is absolutely not doing enough: we're being held back by timidity, by a lack of understanding, by a lack of a more holistic approach."

Figure 7: Companies continue to demonstrate a "performance gap" between ambition and execution on sustainability

To what extent do you agree with each of the following statements about environmental, social and corporate governance issues?



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses; 2007 data from UNGC-McKinsey study

80% of CEOs view sustainability as a route to competitive advantage in their industry.

Special Focus

CEOs on sustainable business in the Asian Century

In this year's study, we set out specifically to increase participation in Asia, both in our survey and in our interviews with CEOs, so we might better understand the unique perspective of business leaders in some of the world's fastest-growing economies. Challenges of language and culture have previously meant that Asian economies may have been underrepresented in studies on sustainability, but with its rapid economic and population growth, allied to a rising impact on global sustainability challenges, the "Asian Century" deserves closer examination.

Sustainability amid the "trilemma": Resource use, consumption and urbanization

Asia is the world's largest and most inefficient resource user: the region requires three times as much energy input per earned dollar of GDP,[37] and on its current trajectory is forecast to triple carbon emissions by 2050.[38] The region faces a 'trilemma' of challenges: growing resource scarcity and environmental pressures; rising affluence and consumption; and ongoing urbanization at a rapid pace. These conditions are not unique to Asia—these mega trends can be seen as characteristics of most emerging economies—but the sheer scale of the region commands attention: of the top ten countries that represent the largest portion of the world's population, half are in Asia (China, India, Indonesia, Bangladesh and Japan); India and China alone constitute more than one-third of the world's population.[39] Economies in the Association of Southeast Asian Nations (ASEAN) are on track to be the next big growth engine within Asia, rapidly catching up with India in terms of GDP and projected to grow by 6% per annum between now and 2030.[40] With a strong economy, often commanding political power and a rapidly urbanizing population, the potential for change and transformation in Asia is formidable.

An analysis of responses to our survey by region reveals some instructive differences between CEOs in Asia and their global peers. This year, fully 76% of Asian CEOs expect sustainability to transform their industry within five years, versus a global average of 63%. Activity on sustainability appears to on be the rise, with 78% of CEOs reporting that they are incorporating sustainability issues into core business more than they did five years ago. More than half, 52%, report that sustainability issues will be "very important" to their future success, a figure above the global 45%, and well over the 32% in Europe, for example. This focus on the importance of sustainability to business success may reflect, in part, the imperative presented by urban transformation across the region: in providing the means for Asia's transition towards a new resource economy characterized by intelligent urban centers, enabled by new technologies and powered by clean energy, many companies see a unique opportunity to differentiate their business and seize new waves of growth.

The lens of proximity: From philanthropy to core business

Across Asia, it is clear that business leaders' priorities often reflect the "lens of proximity": compared with the global average, CEOs place greater store by the importance of education, health, climate change and energy. At a national level, CEOs are focused on issues close to home: poverty alleviation and water security in India, for example; air pollution in China; energy security in Japan. Perhaps surprisingly, given the immediacy of environmental and social challenges, Asian CEOs are more likely than their global peers to report that the global economy is on track, that business is making sufficient efforts to address global challenges, and that their own industry and business are doing enough.

From our conversations, many Asian CEOs believe that their peers in the region may be trailing their global peers in the integration and advancement of sustainable business. The historical context of Asian business, and the close links of often family-owned companies to local communities, can make the step towards modern conceptions of corporate sustainability a natural one. But it is clear from our conversations that in many companies, sustainability may not yet have made the transition from a philanthropic concept towards an approach embedded into companies, industries and markets. Our interviews suggest that many companies remain motivated by an agenda of compliance or business ethics, rather than fully integrated into corporate and business strategy; at root, sustainability is often seen as a "license to operate," with the health and prosperity of local communities the primary factor as companies look to build a social contract that ensures longevity and stability. Despite historical tradition, Asian CEOs are not yet leading on sustainability—but as Asian companies become ever more global, external pressures will rise, and the potential rewards will multiply.

National portraits: The landscape and composition of Asia

It is too simplistic, of course, to view Asia as a single entity: while there may be similarities, and common challenges, individual circumstances across individual countries lead to a great diversity in companies' approach to sustainability. One reflection from this year's findings would be that, on sustainability at least, Asia is at least, if not more, diverse than comparable regions around the world. Individual findings at a regional and national level will be the subject of future reports, but it is perhaps instructive to reflect here on some of the most eye-catching findings from our research.

In certain economies, for example, we can discern from our discussions with executives a melding of modern, Western concepts of "sustainability" with older, more integrated approaches to business. In Japan, for example, many companies have historically abided by an adage that says, in the words of one CEO, "Good business is good in three ways: good for you, good for the customer, and good for society." Such approaches may demonstrate the deep-rootedness of sustainability in many companies, and in Japan, in the wake of the 2011 Tohoku earthquake and tsunami, many businesses are increasingly conscious of their role in supporting local communities and boosting national prosperity, and may be broadening their definitions of, and approach to, sustainability accordingly. Eco-solutions provider Amita Holdings, for example, has been engaged in the recovery plan of Minamisanriku, a coastal resort town largely destroyed by the earthquake. With the support of its "do-tank," the Amita Institute for Sustainable Economies, the goal is to generate renewable energy, rebuild sewage systems, promote organic waste treatment through biogas and build an eco-town, boosting the local economy through job creation and industry.[41] As one Japanese CEO noted, "It is time for businesses to return to the fundamental position that solving societal issues are the raison d'être for business."

In China, as prosperity grows and the number of households with middle-class levels of disposable income rises, CEOs see a strong consumer focus in their strategies for sustainability. The most commonly cited factor motivating CEOs to take action on sustainability issues—both globally and within the Asia region—is brand, trust and reputation, a factor selected by 69% of all CEOs. Chinese CEOs are more confident than their global counterparts when it comes to consumer interest in sustainability, with 93% reporting that they believe the sustainability performance of their goods and services is important to their consumers' purchasing decisions. More than half of CEOs in China, 57%, believe they have secured a price premium with consumers through their approach to sustainability, versus a global average of just 28%.

Through our conversations in India, there is a strong sense that personal motivation and commitment remains the single most significant factor in driving companies' action on sustainability. Perhaps reflecting the prevailing culture brought about by the predominance of family ownership, and the close link to local communities, 50% of Indian CEOs indicate that personal motivation is one of their most significant motivations to act on sustainability; only 25% of CEOs throughout Asia feel similarly. And half of Indian CEOs, versus 15% globally, feel that the impact of development gaps on their business motivates them to take action on sustainability. As one Indian business leader said, "I believe that our actions and decisions of today have to be seen as responsibility for creating our children's world of tomorrow." Indian business leaders are also the least likely to cite market-facing factors behind their approach to sustainability: just 17% of CEOs, versus 47% globally, see consumer demand as a significant motivation, and only 33% cite the potential for revenue growth and cost reduction, a factor selected by 49% of CEOs globally.

The collection of national portraits within Asia, and the instructive differences in CEOs' approach to sustainability issues, illustrates that the sustainability story in Asia cannot be viewed as a singular entity, but rather as a unique collection of perspectives and approaches.

Bypassing the maturity chasm

Though CEOs in Asia can, in many cases, demonstrate real and tangible examples of their impact on local communities and the common good, they may not have been so successful in making the transition to delivering real value creation from sustainability. Fully 70% of CEOs in Asia (versus 51% globally) report that they view sustainability as an opportunity to give back to local communities through charitable activities, a finding supported by many of our conversations with business leaders across the region, and one that may suggest that many companies are yet to cross the chasm from sustainability-as-philanthropy toward an approach in which sustainability issues are aligned with, and embedded into, core business.

Being unable to quantify the value of sustainability efforts is a challenge for CEOs in every region, in every industry. As we have uncovered, an emphasis on incremental efforts—in sustainability reporting, for example, or in emissions reduction—can overshadow a focus on truly transformative action that can drive greater business value and impact on sustainability challenges. But through our conversations with CEOs, it is clear that they see the potential for Asia to "leapfrog" the chasm, bypassing the plateau on which many of their global peers are marooned, and aim instead for transformative change. By learning from the experiences of companies whose efforts to make a business case for sustainability have plateaued, Asian CEOs can avoid this chasm in the sustainability maturity curve. In fact, the shortcomings in the tried-and-tested approach are already apparent to some leaders in the East: as one CEO commented, "While I respect Western environmental awareness, I find that most activity is still economic value-led behavior, and short-term driven." In the words of another business leader, reflecting on the potential for sustainability in Asia, "The real story is the value creation potential for sustainable innovation and the impact it can have over the next decade."

The challenge of sustained, green growth

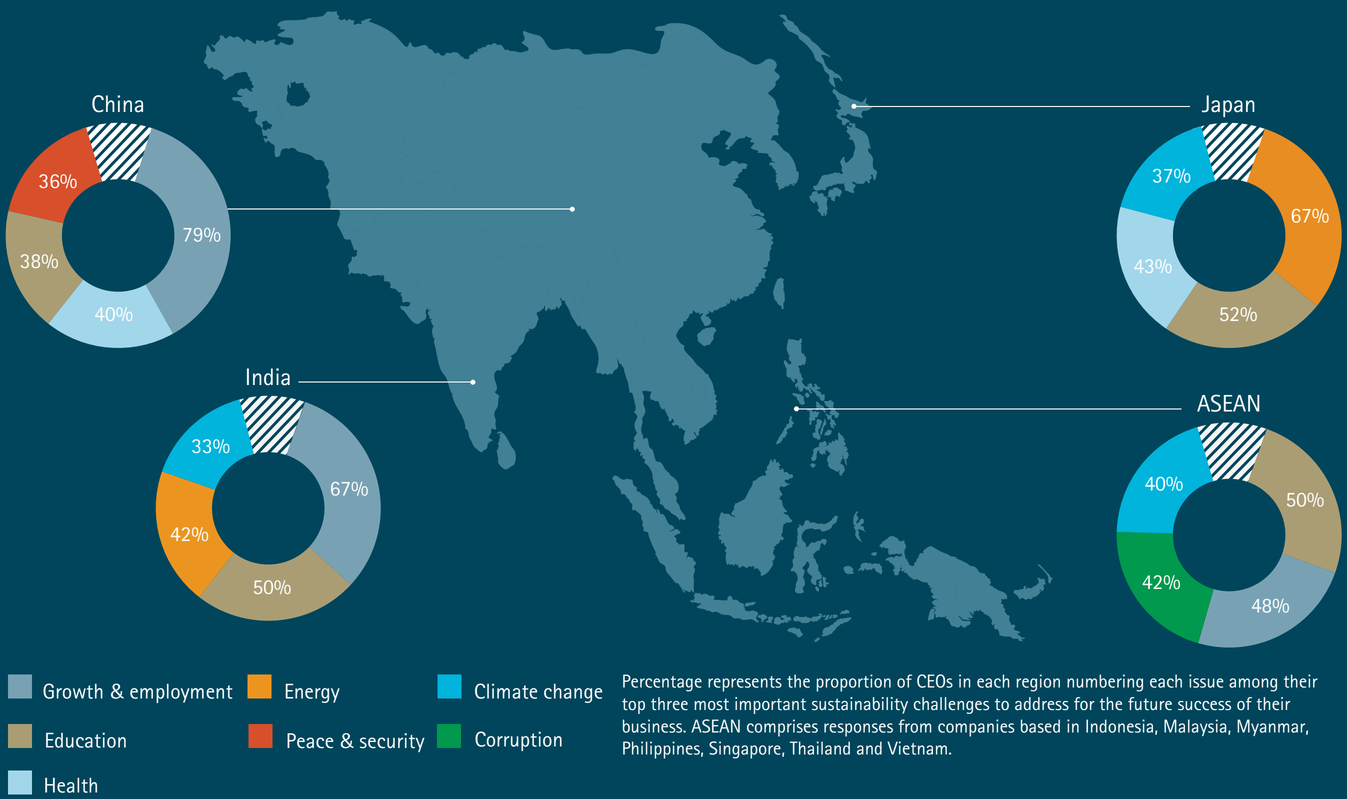
As Asian economies continue to grow, urbanize and industrialize over the coming decade, business will have a critical role to play in balancing the demands of economic growth on natural resources and local environments with the potential it brings for a transformational improvement in living standards. At the current trajectory, Asian economies are already facing tough choices, between accelerated, "dirty" growth and slower, green growth that may not meet the demands of a generation demanding greater prosperity.

The challenges of growth will present a new environment for business. As Yasumi Kudo, president of the Japanese shipping company NYK Line, told us, "New technologies, more stringent regulation and the development of alternative energy sources will have a big impact on our business." Over the next decade, as many Asian economies seek to decouple growth from natural resource use and continue the rise in the well-being of their citizens, governments will look to business innovation to fuel new waves of growth. As Huaibang Hu, CEO of China Development Bank, noted, "Reform has been the continuous driving force for rapid economic growth; we shall continue to seek reform and innovation in the coming decade while tapping the full potential of urbanization. By setting off a new round of economic growth and overcoming the middle-income trap, we will help to upgrade the economy."

Business leaders expect to require great creativity in shaping new markets that can uncover new opportunities while addressing social and environmental challenges, even in economies experiencing slowing rates of growth. As one business leader told us, "In an era of shrinking economies, you have to explore markets you cannot see. The capability of corporate operators will really be tested, and those who are able to catch hidden markets from social issues will be able to maintain a continuous growth."

Figure 8: The "lens of proximity" is particularly evident in CEOs' priorities across Asia

Which of the following global sustainability challenges are the most critical to address for the future success of your business?



Percentage represents the proportion of CEOs in each region numbering each issue among their top three most important sustainability challenges to address for the future success of their business. ASEAN comprises responses from companies based in Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

Already bright spots of innovation are apparent across Asia: from investment in clean energy, such as solar power, to innovations in mobile technology to connect rural consumers, the unique challenges of fast-growing Asian economies are generating unique solutions that can unlock business value while supporting green growth. China's Broad Group, for example, has evolved from being an air conditioning manufacturer to offering complementary services as a building energy service company and manufacturer of sustainable prefabricated buildings. Its comprehensive stance on sustainability stems from the CEO's belief that sustainability is not only about a product or service, but an approach on how to do end-to-end business. As CEO Yue Zhang told us, "Sustainability value and business value are completely aligned, and, in fact, they are the same thing to me. I consider environmental protection, social values and other sustainability values as having exactly the same impact on my company as cost saving, brand management, risk reduction and business development initiatives." Starting from equipment innovations focused on energy efficiency goals, to systematically approaching overall building energy management, to ultimately manufacturing sustainable buildings that are also material efficient, recyclable and dust-free, Broad Group demonstrates how rapid urbanization and investment are driving new solutions that can achieve a win-win on business value and sustainability impact.

Across Asia, business leaders see the need for greater collaboration, both with governments and within and across industries. In the words of Kengo Sakurada, president of NKSJ Holdings in Japan, "I believe that collaboration between industries is the most necessary approach toward tackling and solving the complex and borderless global issues we face: we need to be even broader and collaboratively engage with multiple stakeholders by working together in order to address these global issues." Through our conversations, we have already seen successful examples of active collaboration between government and business. In India, for example, Tata Power Delhi Distribution operates a distribution network of 5 million consumers, for whom blackouts are common. When the government decided to implement smart solutions for energy conservation and established the India Smart Grid Task Force, Tata Power recognized the opportunity to address distribution challenges, reduce costs and increase its customer base. In order to facilitate the required digital relationship between customer and supplier and enable the smart grid, Tata Power distributed 40,000 automated meter reading systems, which provide consumer data every 15 minutes. In realizing the potential of smart grids, Tata Power captured significant business benefits: improving the efficiency of the distribution network, ensuring accurate and timely billing, and reducing power outages through improved communication with customers.[42]

Resetting market rules: The role of government and policymakers

CEOs in Asia echo the global call for government leadership to provide more defined and stringent regulation to serve as impetus for change at scale and speed. Fully 91% of CEOs in Asia believe that governments must actively encourage sustainability through policymaking and regulation in order to harness sustainability as a transformative force in the global economy. Further, Asian CEOs are more likely than their global counterparts to call for "hard" measures such as taxation, subsidies and incentives, and regulation and standards in promoting sustainable growth. Throughout our conversations with business leaders, there is a near-unanimous sentiment that government regulation needs to be continuously updated to reflect market and industry changes, in order to avoid inhibiting innovation; in Asia, there is a clear willingness and impatience to play by a different set of rules, and an open invitation to policymakers to help establish those rules. As Masayuki Kinoshita, representative director of Mitsui, told us, "Government policy and regulation has a direct impact on our sustainability agenda; these large-scale sustainability goals cannot be achieved by the private sector alone. We need the government to implement fair and transparent policies that are focused on developing a sustainable society in the future."

The Asian Century: Transformation or frustration?

As Asian economies continue to grow over the coming decades, sustainability challenges will only become more intense. As governments seek to improve the living standards of their citizens, the innovations of business will play a critical role, and in supporting national prosperity, these emerging-market multinationals will have a unique opportunity to play a greater role on the global stage. As leading companies increasingly look to "go global," a greater maturity is evident in their approach to sustainability. Not simply concerned with local issues or driven by philanthropy, leaders of these companies are adopting new approaches informed by a search for business value and advantage. In doing so, they are able to combine the best attributes apparent throughout Asian business—close links to communities, a powerful sense of personal responsibility, and a commitment to national prosperity—with a lens of growth and innovation that can support their efforts in harnessing sustainability as a transformative force in the Asian Century.

Over the coming months, the Global Compact and Accenture, in association with the Global Compact Local Networks, will be delving deeper into the insights from our conversations in Asia Pacific. In a series of papers and articles, we will examine in greater detail the forces shaping companies' approach to sustainability across the region, the motivations influencing business leaders, and the potential for transformation across many of the world's fastest-growing economies.

Look for our forthcoming papers in early 2014 at www.accenture.com/ungcstudy.

CEOs on sustainability

"Trust is the foundation of sustainable development. Trust can only be earned by internalizing the evolving understanding of human rights and democracy–which is the ability of people to contribute to and influence decisions that have an impact on shaping their future."
Dr. Yılmaz Argüden, ARGE Consulting; Rothschild Türkiye

"Today, agriculture uses more than 70 percent of all water withdrawals, so let's talk about irrigation as much as we talk about water."
Igal Aisenberg, Netafim

"Each of us has to inform each other and come together in new and exciting ways in order to be transformative."
Marilyn Carlson Nelson, Carlson

"As business, we need to do more: we have a role to play to fix these challenges, re-address our business model and the way we do things to ensure that we have a broader vision for the future."
Michael Andrew, KPMG International

"Helping customers is the reason. Collaboration is the means."
Douglas M. Baker Jr., Ecolab Inc.

"The difference between our activities on sustainability and other areas is that we share what we do on sustainability."
Nils S. Andersen, A.P. Moller – Maersk

"The role of every company is to be a positive force in society: you have to focus on creating value, creating success, and if you look from the perspective of the long-term then in going about your business you should engage with society positively."
Paul Bulcke, Nestlé S.A.

"We measure our success not by the profit we make, but by the difference we make."
Bob Collymore, Safaricom Ltd.

"If the required direction of travel is northwards, then heading south, even more slowly than the rest of the pack, is still heading south. The hard limits imposed by planetary boundaries define not only the direction of travel, but also the required rate of progress if we are to avoid paying the societal costs associated with breaching those boundaries."
Mike Brown, Nedbank Group Limited

"We have to work together with government, with the industry, and NGOs: we are totally committed to working together."
Carlos Brito, Anheuser-Busch InBev

"Our challenge is to keep up with our past and push the envelope on sustainable business to maintain our leadership position"
Arunavo Mukerjee, CEO, Tata Cleantech Capital

"Sustainability is a commitment, a target and also a business opportunity."
Carlos Fadigas, Braskem SA

"The Global Compact can help countries to work together to understand critical issues, set common goals and commit to actions that can address global challenges."
Hwan eik Cho, Korea Electric Power Corporation (KEPCO)

"When we are able to realize the potential value from data, that is when we will cause a paradigm shift."
Nobuhiro Endo, NEC Corporation

"Governmental regulation is necessary, regulation will guide the right actions, in the right direction."
Chuande Chang, Qingdao Port

"You can't compartmentalise sustainability anymore: everything is interrelated."
Richard Edelman, Edelman

"The trend towards sustainability is strong—and so the drive towards innovation is strong."
Pierre-André de Chalendar, Compagnie de Saint-Gobain

"We're getting better at demonstrating the business opportunities from embracing sustainable development: sustainability is now mainstream."
Douglas Flint, HSBC Holdings plc

"In an era of shrinking economies, you have to explore markets you cannot see. The capability of corporate operators will really be tested, and those who are able to capture hidden markets from social issues will be able to maintain continuous growth."
Eisuke Kumano, Amita Holdings

"We have a responsibility to bring our industry peers on board and move together on sustainability initiatives in order to create the level of desired impact and raise awareness throughout society."
Dr. Chuchottaworn Pailin, PTT Public Company Limited

"Today, a sound programme encompasses responsible business strategy and innovative business solutions along with a sustainable business model that not only serves the company's interests but the interests of society at large"
Sudhir Vasudeva, Oil & Natural Gas Corporation Limited

"There is a natural evolution in the investment community towards sustainability, corporate governance and transparency: these will soon become normal parts of the investor discussion."
Federico Ghizzoni, UniCredit

"Executives must credibly embody the visions of sustainability, in order to drive the change in corporate culture and inspire employees. The complexity of this world must be accounted for in our decisions on how to steer the company."
Dr. Rüdiger Grube, Deutsche Bahn AG

"The UN Global Compact can be a powerful platform to accelerate progress on sustainability by giving us shared values and common goals."
Rafael Fontana, Cuatrecasas Gonçalves Pereira

"Engagement is based on our 'compagnons' feeling that they are participating in something beyond themselves, and building something unique."
Xavier Huillard, VINCI

"We engage in sustainability initiatives because we can make genuine contributions where there is great need, and at the same time build future market opportunities where our innovation can make a difference."
Joseph Jimenez, Novartis

"There is still a long track towards mature quantitative sustainability indicators, so it is necessary to pursue integrated thinking in order to adequately quantify the contribution of sustainability to business performance."
Dr. Heinrich Hiesinger, ThyssenKrupp

"Business is the agent for world benefit; business is going to make these changes. Business will be the focal point for getting sustainability into our society."
Chuck Fowler, Fairmount Minerals

"Climate change, poverty and health care are the major issues: we have to provide funding to address these issues."
Takashi Hibino, Daiwa Securities Group Inc.

"The financial sector cannot thrive without the development of other industries and won't be stable without stability of others."
Huaibang Hu, China Development Bank

"It is important to drive top-down sustainability by assigning KPIs to the management team, this includes all baselines from steam to waste to kilowatt hours."
David Hasanat, Viyellatex Group

"I firmly believe that the innovative energies of business can bring about transformational change to create a more secure, sustainable and inclusive future."
Y C Deveshwar, ITC Limited

"Large-scale sustainability goals cannot be achieved by the private sector alone. We need the government to implement fair and transparent policies that are focused on creating a sustainable society in the future."
Masayuki Kinoshita, Mitsui & Co., Ltd.

"I'm always surprised how conservative discussions on sustainability are: we often try to defend the situation of the past, but the challenge for all of us is not to waste time in delaying necessary change."
Jan Jenisch, Sika AG

"Organizations today are greatly aware of the impact of their decisions and actions on the wider stakeholder spectrum, and YES BANK remains committed to adopting inclusive and equitable business practices that maximise positive outcomes for India's economic and social development agenda."
Rana Kapoor, YES BANK

"Even in 10 years or 100 years I would not be able to say that we are doing enough to address sustainability challenges. There will always be gaps that need to be filled; this is an endless effort."
Eizo Kobayashi, ITOCHU Corporation

"New technologies, more stringent regulation and the development of alternative energy sources will have a big impact on our business."
Yasumi Kudo, NYK Line

"Collaboration is the key to building a sustainable business environment. We can more effectively work towards this common goal with the collective efforts of more companies."
Leng Joo Kwek, City Developments Limited

"We also need to form strong partnerships with all stakeholders across the full value chain to promote a fair, positive global market environment where shared value is created for everyone."
Sun Li, China National Aviation Fuel

"Today, there is no distinction between what you do for profit and how you drive positive change. The more you drive positive change, the more enhanced your business model."
Anand Mahindra, Mahindra & Mahindra Limited

"If the owner of the capital says gone are the days of short-term returns, that will change the whole culture of the boardroom."
Elias Masilela, Public Investment Corporation

"Sustainability is a journey, not an event."
John McFarlane, Aviva plc

"There is a direct link between energy and water and you can't solve one without the other."
Kamal Meattle, Paharpur Business Centre

"Increasing visibility amongst the general public is important for creating momentum in sustainability."
Yuzaburo Mogi, Kikkoman Corporation

"There is no choice for businesses but to get on the road to sustainability– It is unsustainable to be unsustainable."
Ramakrishnan Mukundan, Tata Chemicals Limited

"If we want to take the big swings and fight the big battles, then we need clear policy, incentives, changes and signals."
Peder Holk Nielsen, Novozymes A/S

"Ultimately, corporations and consumers are connected by trust. Corporate brand is created when this trust is built at scale. Trust is built piece by piece, and building trust takes time."
Noritoshi Murata, Seven & I Holdings Co.

"Engaging with the communities in which we operate is the only way to be sustainable in the future."
Javier Genaro Gutiérrez Pemberthy, Ecopetrol S.A.

"There are many opportunities for our sector to create services to reduce carbon footprints, reduce energy usage and build new capabilities that can create jobs, drive growth—and do so in a sustainable way."
Gavin Patterson, BT Group

"You will not be judged anymore only by the top line or bottom line results in your company. You will increasingly be judged by the contributions that you will make to society."
Paul Polman, Unilever

"Environmental and social concerns are now being addressed as boundary conditions and are integral to all our initiatives. They are no longer thought of as issues to be addressed post facto."
G.V. Prasad, Dr. Reddy's Laboratories

"When you have the ideas, take action faster– you can spend hours discussing what to do, but we should try to get to the heart of the issue quicker, prioritise and take action."
Jørgen Buhl Rasmussen, Carlsberg A/S

"A change of pace in advancing sustainability will rely on innovation."
Stephen A. Roell, Johnson Controls Inc.

"We need a plan that is progressive enough, and rigorous enough, to set real priorities for action."
Kasper Rorsted, Henkel

"There is a need for market incentives as well as regulatory and financial instruments to drive sustainability."
Prashant Ruia, Essar

"The world is more complex, and risks are more interconnected; but a complex world is an opportunity, if you can deal with its complexity."
Martin Senn, Zurich Insurance Group

"I believe that collaboration between industries is the most necessary approach towards tackling and solving the complex and borderless global issues we face."
Kengo Sakurada, NKSJ Holdings, Inc.

"We have always sought to be different: sustainability is a way of doing business, not simply our way of doing good."
Paolo Scaroni, Eni

"By tradition, Chinese people think before they leap. Therefore, transformation in philosophy is vital; this involves educating industry, society and the general public, which will take time."
Lirong Shi, ZTE Corporation

"Our company emphasizes creating shared value across the entire value chain by connecting closely with our suppliers, customers, staff, government and the society."
Junfeng Shi, JiangSu Lopal Petrochemical Co. Ltd

"The circular economy and the decoupling of growth and impact isn't a future trend—it's our current reality."
Prof. Rupert Stadler, Audi

"Technology transformation has to come. Technology is the game changer."
Praveer Sinha, Tata Power Delhi Distribution Limited

"The impact of corporations on sustainability is currently incremental—but it is a given that together with the public sector, we should contribute to a sustainable society."
Shuzo Sumi, Tokio Marine Holdings, Inc.

" A willingness to share is a common characteristic of true lifetime leaders."
Dr. Martha Tilaar, Martha Tilaar Group

"The more business invests in new markets, the more business contributes to development, the more you will see emerging economies taking off."
Jean-François van Boxmeer, Heineken N.V.

"Sustainability has moved from something that's feel-good, to something that's far more integrated with what is required for our future success."
Paul Walsh, Diageo plc

"Green growth has been side-lined by the economic crisis—if you look at the debate on public debt, environmental issues are taking a back seat. The effects might not be immediate, but five years down the road the slowdown in green energy compared to traditional sources will become apparent."
Axel Weber, UBS

"To accelerate progress on sustainability, we need governments to recognise the role of business as a solution in providing growth and innovation."
Sir Andrew Witty, GlaxoSmithKline

"Don't underestimate what technology can do to achieve development goals."
Hans Vestberg, LM Ericsson

"Through meaningful innovation we can make the world healthier and more sustainable"
Frans van Houten, Royal Philips Electronics NV

"By enforcing legislation and standards, governments play a clear role in rewarding businesses that perform well in sustainability versus struggling businesses that will lag behind and struggle to keep pace."
Xianglin Wang, Guangxi Beihai Penshibao Limited

"To attain sustainable growth, we need to enhance IT capabilities."
Liang Yu, China Vanke

"Sustainability is not a branding tool, but it can create competitive advantage."
Zhongshu Zhou, China Minmetals Corporation

"As a business operator, one should consider and be accountable for success in all aspects, particularly in facing future challenges."
Yue Zhang, Broad Group

"Promoting recycling and reuse is difficult without national policy: governments can be the driving force."
Zhou Zhou, TICO Digital

Chapter 3

CEOs on leading outward: Creating value through aligning markets, systems and stakeholders

CEOs express a sense of frustrated ambition as they struggle to make a clear business case for action

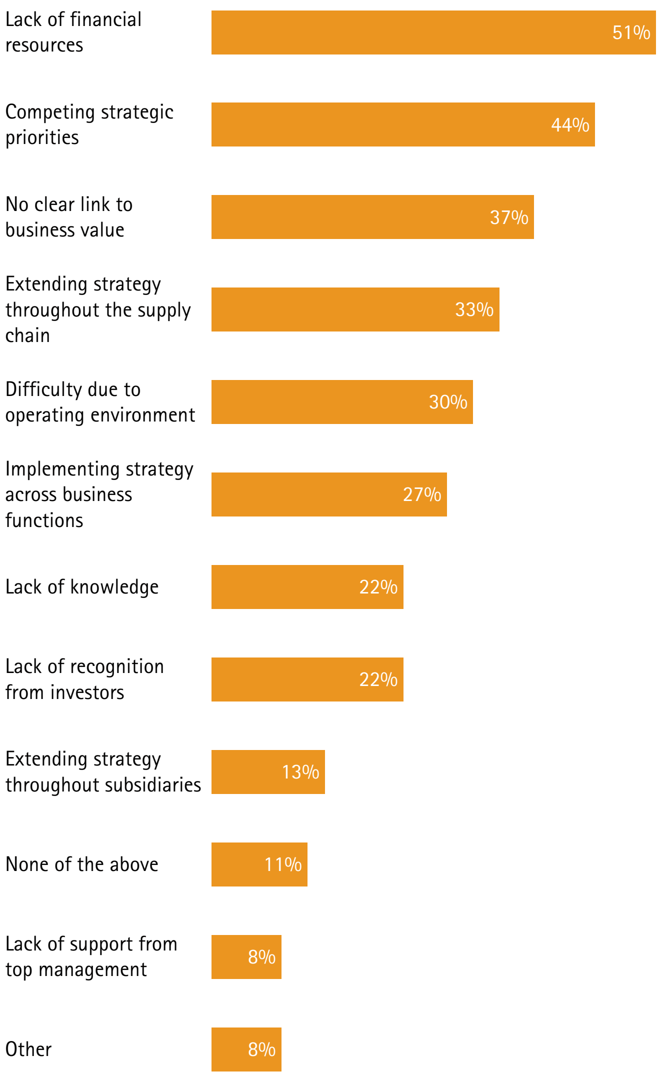
Some 62% of CEOs expect sustainability to transform their industry within five years—and 76% believe that embedding sustainability into core business will drive revenue growth and new opportunities. But throughout our in-depth conversations with CEOs across regions and industries, frustrated ambition is evident. Business leaders see sustainability reshaping their business environment and are committed to reorienting their companies to take advantage. But even as they make progress in embedding sustainability through their business, it is becoming increasingly apparent that they feel constrained by current market structures, incentives and expectations.

When asked about the barriers to further progress in embedding sustainability into their organizations, CEOs see one factor rising more than any other over the past decade: the lack of a link between sustainability and business value drivers. In 2007, just 18% reported a failure to trace such a link; in 2010, this rose to 30%, and this year more than a third—37%—report that the lack of a clear link to business value is a critical factor in deterring them from taking faster action on sustainability.

This figure is lower in those sectors where leading companies have been able to directly monetize sustainability through new products and services. In the consumer goods sector, for example—where only 27% of CEOs see a deficit in this area—many companies are focusing their innovation efforts on helping customers to reduce their own carbon footprints. Similarly, the environmental portfolios of Siemens and Philips, for example, are among their fastest-growing business units, as they help consumers and business-to-business customers to reduce their own resource costs and operate with greater efficiency.[43] And technology company Ecolab has focused its research and development efforts on technologies to reduce the water footprint and costs of its customers in the hospitality sector. Through its Total Impact approach, Ecolab's Aquanomic program developed new laundry processes that reduce rinse cycles and save up to 40% of typical water usage in every load. Ecolab estimates that its technologies save around 430 million gallons of water a year, while delivering cost and efficiency improvements to customers.[44]

Figure 9: CEOs identify the lack of financial resources, competing priorities, and the lack of a link to business value as critical barriers

Which barriers keep you, as a CEO, from implementing an integrated and strategic company-wide approach to environmental, social and corporate governance issues?
Respondents identifying each factor among their top three choices



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

57% of CEOs could set out in detail their strategy for seizing opportunities presented by sustainability in the next five years.

Sustainability and the search for value: Making the business case

The search for value in sustainability is perhaps the overriding theme across the lifespan of the Global Compact CEO Study. Consistently, CEOs have spoken of the need to move sustainability from a discretionary effort, motivated principally by a moral imperative, to a non-negotiable part of core business, justified by a clear and quantifiable business case. In 2007, business leaders talked of increasing pressures and growing expectations on business; in 2010, they spoke of the opportunities for competitive advantage in finding solutions to global challenges.

Throughout, we have heard a growing acknowledgment that, to be sustainable in itself, sustainability must lead to business value. As Joe Jimenez, CEO of Novartis, remarked, "Corporate philanthropy is 'nice to have,' but if it is not connected to the business, it can easily be cut in difficult economic conditions; investments that make fundamental improvements and increase economic vitality, and at the same time increase opportunities for business, are harder to cut." And as another business leader put it, "You may want to do CSR [corporate social responsibility] that you are not required or expected to do, but you can't do CSR that destroys value."

Throughout our conversations, both in 2010 and this year, CEOs have expressed great confidence that, despite external barriers and a need to better engage external stakeholders, sustainability would provide a new source of value for their business. As one CEO remarked, "If you do the right thing, there's often a good business case—sometimes in the short term, sometimes in the long term." Business leaders across industries are increasingly focused on the need to justify their investments in sustainability through traditional measures of value. As Carlos Brito, CEO of Anheuser-Busch InBev, said, "Embedding sustainability is easier when it makes sense as the right thing to do and makes business sense: we have to ingrain sustainability in a true way, not as something where once you stop looking, things start going backwards."

Over the course of three studies, covering nearly a decade of activity on sustainable business, we have seen numerous examples of companies driving incremental improvements through sustainability. Companies' closer attention to the transparency of their supply chains, for example, is benefiting traditional measures of business success: through greater knowledge of working practices and conditions, companies are reducing their exposure to risk, cutting costs and securing the reputation of their brand and trust with local stakeholders. Nike, for instance, responded to challenges to the brand in the 1990s through a commitment to sustainability that has since permeated the business. Improved monitoring and auditing of its supply chain has driven dramatic changes, with the number of contract factories with "unknown" conditions falling from 48% in 2009 to just 8% last year.[45]

The resilience of supply chains is a critical issue for companies dependent on natural resources. Global brewer Diageo, for example, has built a business model to provide sorghum to its brewing operations. An alternative to barley that grows well in water-scarce areas, sorghum presents a solution to persistent volatility in global barley prices, which are driven by bad harvests and high demand and have caused serious disruptions to Diageo's Africa operations. The company has invested $250,000 in an inclusive business model, working with local governments to train local smallholder farmers and secure a sustainable local supply. By 2012 sorghum accounted for 70% of Guinness Nigeria's grain volume, cutting costs and reducing the risks of poor harvests. This model has since been adopted across Diageo's African operations and is playing a central role in securing the sustainability of the company's operations across the continent, a business already worth more than $1 billion a year.[46]

In these approaches to sustainability, CEOs can clearly point to examples of business benefit against traditional measures of success. But many programs are suffering from "pilot paralysis": while they may cut costs, the rewards may not be sufficiently large to justify a scaling up of efforts; while they may boost brand and reputation, the rewards are hard to quantify; and while they may reduce risk, the upside benefit is often unclear. Collectively, these individual examples of sustainability improvements in many of the world's largest companies amount to an incremental shift—and they may not be scalable to the extent that they can have a greater impact on global challenges.

81% **of CEOs believe that the sustainability reputation of their company is important in consumers' purchasing decisions.**

CEOs see individual progress—but a collective failure to scale sustainability

In the 2010 study of Global Compact CEOs, we investigated individual companies' progress in integrating sustainability into core business and turning environmental, social and governance issues to business advantage. At that time, CEOs told us that sustainability would be critical to the future success of their business, and we saw numerous examples of companies driving superior business performance while addressing global challenges.

As we approach the expiration of the targets of the Millennium Development Goals in 2015 and turn our attention toward the leading role that business can play in defining and delivering the post-2015 development agenda, CEOs believe that we should judge progress by a different standard.

While we can celebrate the individual achievements of sustainability leaders pushing the boundaries of what is possible within current structures, markets and industry models, there is a growing recognition that even the success currently achieved by the most advanced companies is happening within an unsustainable system. In our survey, 84% of CEOs believe that business should lead efforts to define and deliver sustainable development goals. As one CEO in the insurance sector told us, "The impact of corporations on sustainability is currently incremental, but it is a given that together with the public sector we should contribute to a sustainable society." And as another business leader in the pharmaceuticals sector said, "There is now more demand on us to show leadership on global challenges—not just for us to demonstrate our own performance, but increasingly to show that the sector is making a difference."

Business leaders believe that they need to find ways to go beyond the incremental to discover new, transformative approaches to sustainability challenges that can capture new sources of value. As one CEO told us, "Today we're in a high-consumption world, but we can buy time by reducing the impact of our current model. Further progress will demand science-based, common thought processes governing how we are going to think about these things in very different ways."

Beyond incrementalism: Capturing and quantifying value

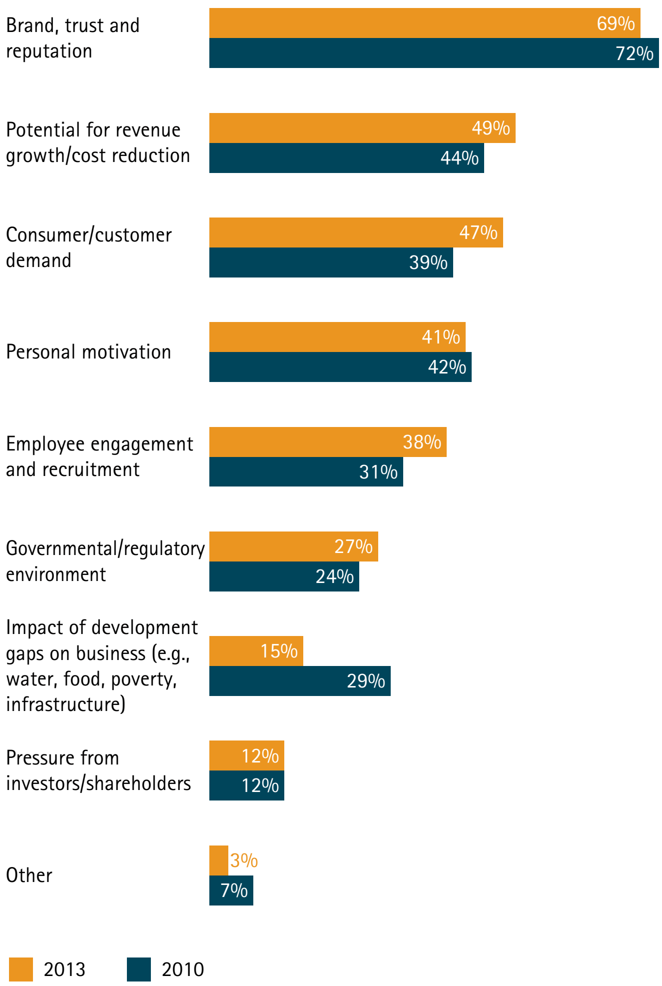
Our conversations suggest that the seeds of a new approach to sustainability, with real possibilities for transformation, are being sown by companies focusing on the potential for innovation and growth. But as CEOs have sought to move from the incremental improvements in brand, cost and risk, and toward a new, transformational approach driven by "upside" growth, they have encountered significant challenges along the way. In 2010, we encountered the "investor moment" in many of our interviews: we would do more, said CEOs, if only investors paid attention. This year, our research suggests that this search for value may have stalled and that many companies are looking closer to home when examining the reasons for slow progress in sustainability. Even those CEOs committed to action on sustainability are struggling to quantify and communicate the business case for action. Only 57% of CEOs report that they could set out in detail their strategy for seizing the opportunities presented by sustainability over the next five years, and just 38% report that they are currently able to accurately quantify the business value of their company's sustainability initiatives. Coming from a sample of CEOs of companies in the Global Compact, who are already committed to the journey and are typically ahead of the majority of companies globally, these are striking numbers.

Our conversations suggest a complex and rocky journey as companies seek to identify and quantify the business value of sustainability. Those companies at the very beginning of the journey are finding it hard to make the link to value for their business, seeing sustainability instead as a primarily philanthropic or charitable enterprise. As companies mature, the opportunities for value appear boundless: if they can engage consumers, communicate with investors and forge better relationships with governments, the reward for leadership on sustainability will be lucrative.

But as companies adopt a genuinely leading position on sustainability, going beyond the demands of external stakeholders to adopt sustainability as a core element in their strategies and positioning for advantage, they once again encounter significant challenges in forging links to quantifiable business value. The more adept companies become at measuring and tracking their own sustainability performance, the more their frustration grows at an apparent inability to tie performance improvements and industry leadership to the fundamentals of business value beyond incremental gains. Signals from consumers are mixed, they discover; investor interest is patchy. While in 2010, these companies appeared to be heading toward the peak, they now find themselves on a plateau, often unable to see the path toward the summit.

Figure 10: CEOs are increasingly market-focused in their motivations to invest in sustainability

Which factors are currently driving you, as a CEO, to take action on sustainability issues?
Respondents identifying each factor among their top three choices



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses.

The majority of companies pointing to tangible value creation through sustainability are those that have been able to directly address resource efficiency for their consumers and customers in providing energy efficiency solutions for buildings, for example, or in the reduction of customers' water footprint. In selling sustainability to their customers, these companies are focused on combining improvements on environmental and social metrics with a clear, quantifiable business case. As Douglas M. Baker Jr., CEO of Ecolab, put it, "Aligning economic and environmental benefits is the key to progress: if my people ask me to support initiatives which hit environmental impact goals but don't make economic sense, they have more work to do."

The innovations of these leading companies will be critical in enabling business to address global sustainability challenges. But this approach in isolation may limit business impact to a narrow focus on incremental environmental objectives at the expense of broader sustainability issues covered by the Global Compact's Ten Principles such as human rights, labor standards and anti-corruption. In the context of global challenges, actions justified by an easily quantifiable, short-term return will not collectively amount to the contribution to global sustainability that business leaders believe is required. As one senior business leader in the consumer goods sector told us, "Most businesses see the world from their vantage point, so the Millennium Development Goals are not directly translated into a business model that you can take to the Street."

To make progress against these broader objectives, business needs to understand and collaborate with three key stakeholder groups: consumers, investors and governments.

Consumers are conflicted in their signals—and may not provide the answer

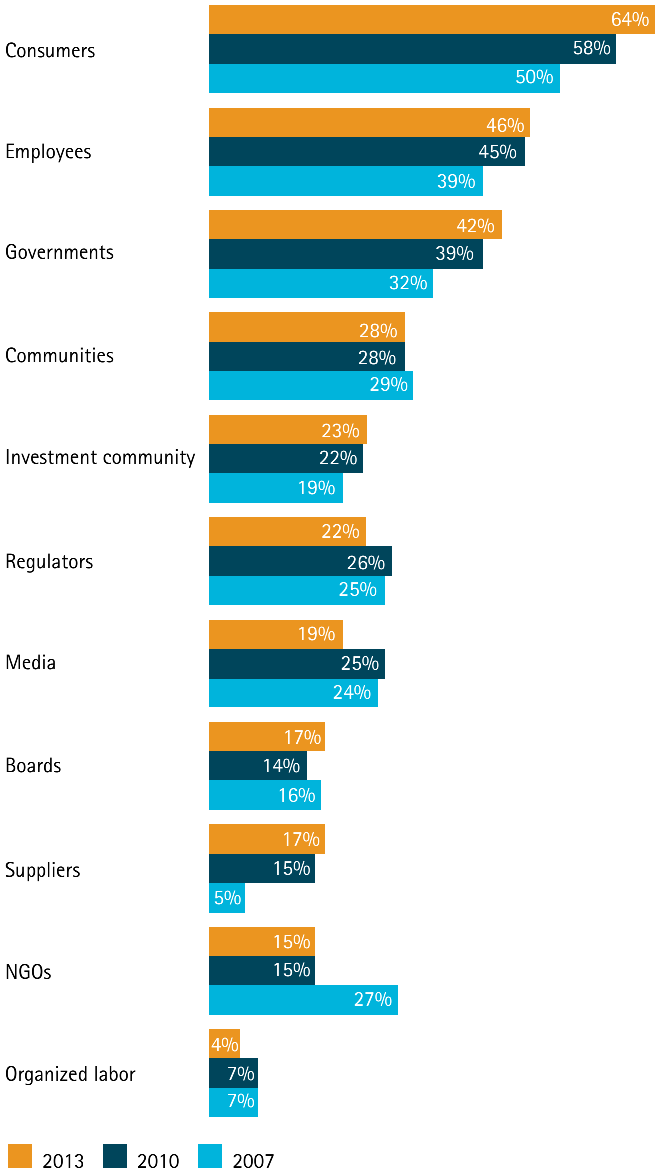
In our survey of 1,000 CEOs, it is clear that market-facing factors are influencing CEOs' approach to sustainability: the top three motivating factors to take action are brand, trust and reputation (69%), the potential for revenue growth and cost reduction (49%) and consumer demand (47%). These factors, ranked above such motivators as employee engagement, personal motivation, or pressure from government and regulators, demonstrate how business leaders have begun to root sustainability in the business case.

The consumer emerges as the most important stakeholder when it comes to having an impact on a company's approach to sustainability. Consumers are ranked among the three most influential stakeholder groups by 64% of CEOs, continuing the trend observed in 2010, when 58% of CEOs ranked them among the top three influencers, up from 50% in 2007.

For consumer-facing businesses, understanding the shifting preferences and desires of disparate consumer groups is a constant and complex undertaking. Our survey respondents strongly believe that their sustainability performance and reputation are key factors in shaping consumer and customer demand. CEOs report that both the reputation and brand of their company on sustainability (81%) and the sustainability performance of products and services (77%) are important in the purchasing decisions of their consumers and customers. As one CEO in the technology industry told us, "Five years ago, sustainability was important, but not core to how we delivered value to customers; now we have products designed with sustainability in mind."

Figure 11: CEOs see consumers and governments growing in importance in influencing their approach to sustainability

Over the next five years, which stakeholder groups do you believe will have the greatest impact on the way you manage societal expectations? Respondents identifying each factor among their top three choices



Source: UNGC-Accenture CEO Study 2013, based on 1,000 completed responses; 2007 data from UNGC-McKinsey study

Attention to sustainability issues is also seen as critical in building consumer trust. As Yuzaburo Mogi, chairman of the board at the Japanese food and drink manufacturer Kikkoman, told us, "Consumers care about the quality of a company: brand value consists of both quality of product and quality of company." In an era of transparency, in which companies must assume that their every action—and every action of their supply chain—will be public, business leaders see a renewed imperative to ensure that their companies are contributing positively to the communities in which they operate. As Noritoshi Murata, president of the Japanese retailer Seven & I Holdings, told us, "Ultimately, corporations and consumers are connected by trust. Corporate brand is created when this trust is built at scale. Trust is built piece by piece, and building trust takes time. Even a single betrayal of consumer confidence can destroy the brand in an instant."

Despite their belief in the importance of sustainability for consumers, CEOs are realistic with regard to its impact in the market. CEOs remain skeptical of consumers' willingness to make trade-offs between sustainability and traditional differentiators, with 46% believing sustainability issues will always rank behind price, quality and availability. In the words of Peder Holk Nielsen, president and CEO of the Danish biotech company Novozymes, "Sustainable solutions have to be qualitatively or economically on par or better than the old processes that they replace; it has never been possible to charge extra for sustainability." While 28% of CEOs report securing a price premium through their approach to sustainability, many believe that this may not be sustainable or that it may not reach beyond a small segment of "ethical" consumers. "Consumers are aware of sustainability but are not willing to compromise on quality, convenience or price," said Henkel CEO Kasper Rorsted.

Other business leaders are clear in their belief that companies cannot expect sustainability ever to become a critical factor for consumers. "I do not believe that we should be trying to market sustainability," said one business leader. "It is an abstract, intellectual, non-tactile product, so sustainability has to be an enhancer of the proposition that was already on the table." In the words of another, "If you can link environmental benefit to performance or cost, you can justify a premium product; just saying it's green isn't enough." And even where sustainability is important to consumers, precise impacts are difficult to quantify and track. As Jørgen Buhl Rasmussen, president and CEO of the Danish brewer Carlsberg, told us, "How a company is perceived on sustainability makes a difference to consumers' decisions, but it's not down to one set of packaging on one product—it's a reputation built over time."

In essence, business leaders believe that consumers expect superior performance on sustainability and demand a greater contribution by business to global challenges, but that they have little appetite to pay higher prices or to regard sustainability as anything other than a "tie break" factor. CEOs are clear, though, that sustainability is becoming an expectation, and that the reputation on social, environmental and ethical issues can make or break brands—and companies. As one business leader in the consumer goods sector told us, "There is currently an asymmetry in public perceptions of sustainability: the negative impact is much more pronounced."

In business-to-business relationships, leading companies highlight the importance of combining better environmental performance with superior customer service. As Nils S. Andersen, group CEO of the Danish shipping conglomerate Maersk, told us, "Our customers are not willing to pay more for better environmental performance: the vast majority go for the price, and corporate social responsibility is considered a hygiene factor." Maersk itself demonstrates this combination in its approach to slow steaming. With a fleet of more than 600 container ships making over 35,000 port calls a year, Maersk saw an opportunity in 2009 to improve efficiency and reduce carbon emissions by operating cargo ships at significantly less than their maximum speed. Within three years—eight years before its 2020 ambition—Maersk had achieved its target of a 25% reduction in carbon dioxide emissions. And through efficiency savings, it also was able to offer lower costs and greater reliability to its customers.[47]

Understanding the consumer: Growing awareness, uneven action

Understanding the consumer, say CEOs, will be essential: 82% believe that consumers who regard sustainability as a must-have factor in their purchasing decisions will be critical to accelerating progress. But while companies are confident in their belief that sustainability is an important factor in the purchasing decisions of their consumers, the evidence from consumers themselves is more equivocal.

This year, as a complement to the CEO Study, Accenture and the Global Compact are partnering with Havas to better understand what drives consumer preferences and behaviors on sustainability. Drawing on the global advertising and communications group's pioneering work on Meaningful Brands, and through a new survey of 30,000 consumers globally, the study will examine the real drivers of consumer behavior and suggest how companies can better engage consumers on sustainability.[48]

This new study is intended to investigate the paradox that is evident in this year's study on the role of the consumer in advancing sustainable business. It is clear that awareness of sustainability issues is growing among consumers globally and that expectations on companies are rising: 72% of consumers in a recent study said that they expect corporations to preserve and sustain the environment.[49] And there is a growing recognition that consumers' own behavior can address sustainability challenges. Nearly two-thirds of respondents in a 2012 study believed that "as a society, we need to consume a lot less to improve the environment for future generations." A similar proportion felt "a sense of responsibility to purchase products that are good for the environment and society."[50]

But as we heard in our interviews with CEOs, companies are encountering challenges in their efforts to address these growing concerns. With 48% of European consumers claiming to be confused by environmental labeling and only 44% of U.S. consumers saying they trust companies' claims on sustainability,[51] it is clear that even sustainability-conscious consumers are not yet engaged or convinced. And the beliefs of even the most committed consumers on sustainability may not be transferred into clear and unambiguous purchasing signals: consumers often perceive sustainable choices as more expensive, or of lower quality,[52] and just 8% of consumers in a recent study reported that environmental impacts and benefits would be among their chief motivations in switching brands.[53]

Despite CEOs' strong belief that consumer interest will be critical in making progress on sustainability, just 15% believe that good progress has been made over the past three years in instilling sustainability as a must-have factor for consumers—and just 12% believe that this vision will be achieved by 2020. This paradox is at the heart of the market failure that CEOs perceive. A better understanding of consumers will be critical to the transformation required for business to address global sustainability challenges.

Look for the Global Compact-Accenture-Havas consumer study in early 2014 at www.accenture.com/ungcstudy.

Consumers

81% of CEOs believe that the sustainability reputation of their company is important in consumers' purchasing decisions

And **64%** see the consumer as a key stakeholder in influencing their approach to sustainability—the most important stakeholder identified by CEOs

46% believe that sustainability issues will always be secondary to traditional factors of price, quality and availability

And only **28%** report that they have secured a price premium with consumers through their reputation on sustainability

Investors are showing greater interest—but remain ambivalent and are unlikely to drive change

In 2010, CEOs identified the relationship with investors as critical to making progress on sustainability: 86% of CEOs saw the accurate valuation of sustainability by investors as critical to progress. If companies could clearly communicate the value of sustainability, and investors could factor sustainability performance into company valuations, CEOs believed that this relationship could unlock new investment and reward the leaders in the field.

But this year's survey, as we have endeavored to delve in greater detail into the company-investor relationship, reveals little momentum in the impact of investors on corporate efforts in sustainability: as in 2010, just 12% of respondents regard investor pressure as among their chief motivators on sustainability, and only 23% (from 22% in 2010 and 19% in 2007) see investors as an important stakeholder. As one CEO told us, "Investors sit and listen politely when we bring these issues up, but they really don't ask about it—we're not doing this to please shareholders." And in the words of another, "My job as CEO is to make the company bigger, better and more sustainable; I don't spend much time convincing investors, because I think if I do my job, the rest will follow."

But despite their absence from the most important stakeholders cited by CEOs, investors do have an impact: 52% of executives report that investor interest is an incentive for them to invest in sustainability, and 69% expect investor interest to be an increasingly important factor in building sustainability issues into core business. As one senior business leader put it, "We still find it challenging to convey to mainstream investors why and how sustainability can drive value creation, but they're starting to appreciate the risks of working in an unsustainable system."

Yet as with CEOs' perceptions of the consumer, this belief in the growing interest of investors is yet to be reflected in the realities of the market. Just one-third of CEOs of public companies believe that their share price currently includes value directly attributable to sustainability initiatives and performance—further evidence for CEOs' own recognition that the lack of a link to business value is a barrier to progress on sustainability.

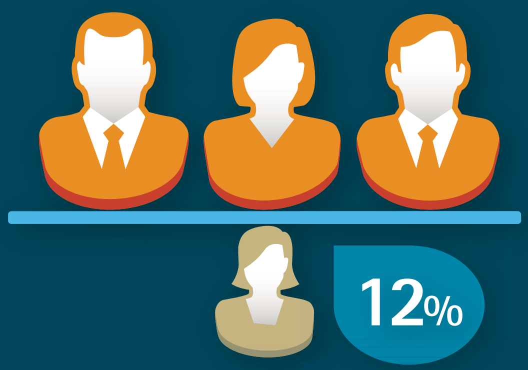
Chief executives, while divided on the level of impact and ability to value sustainability on the part of investors, do not on the whole believe that short-termism in financial markets is a fundamental barrier, with only 15% among public companies agreeing that it prevents them from advancing sustainability. Nor do the leaders of public companies believe that quarterly reporting is the problem, with only 15% citing current requirements as a barrier to long-term investment and just 14% saying that they would abolish quarterly reporting if they had the power to do so. It seems that quarterly reporting and investor short-termism may, according to CEOs themselves, be a "smokescreen" for a wider failure to link sustainability with the drivers of business value and for shortcomings in their sustained inability to frame and communicate that value.

Despite the challenges in the relationship between companies and investors on sustainability, some investors are already recognizing the business opportunity in financing green growth and the transition toward a sustainable economy. For environmental sustainability, OECD growth projections suggest that investments of approximately $5.7 trillion per year until 2020 will be required across the water, agriculture, telecoms, power, transport, buildings, industrial and forestry sectors, creating a significant business opportunity for companies to finance these investments.[54]

As Takashi Hibino, CEO of Daiwa Securities Group, told us,"Climate change, poverty and health care are the major issues: we have to provide funding to address these issues." Daiwa Securities, one of Japan's largest financial service companies is an industry leader in the provision of socially responsible investment (SRI); between 2008 and 2010 it launched eight impact investment bond products to enable both Japanese and overseas issuers to invest in sustainable initiatives in the fields of clean energy, microfinance, reconstruction, development, healthcare and education. While socially responsible investment remains at the margins of mainstream activity in Japan, Daiwa has handled $4.6 billion in impact investment bonds since 2008, which EuroWeek described as having "inspired the Japanese investor base to become the most enthusiastic supporter of socially responsible investments anywhere."[55]

52% of CEOs report investor interest to be an incentive to invest in sustainability.

Investors



Only 12% of CEOs regard investor pressure as among their chief motivators on sustainability

And only 23% see investors as an important stakeholder in guiding their approach

Less than a third – 31% – believe that their company's share price currently includes value directly attributable to sustainability initiatives

69% believe that investor interest will become an increasingly important factor

Governments and policymakers can lead the way—but clearer signals are required

A recurring theme in our conversations with CEOs, both in 2010 and this year, has been the role of governments and policymakers in establishing the enabling environment for business to effectively scale sustainability.

This year's survey demonstrates a slight rise in the importance of governments in influencing companies' approach to sustainability, with 42% of CEOs factoring them among their most important stakeholders, up from 39% in 2010 and 32% in 2007. As Pierre-André de Chalendar, chairman and CEO of Compagnie de Saint-Gobain, told us, "The speed of progress on sustainability is strongly linked to what governments are doing."

Business leaders see the actions of governments and policymakers as both a barrier and an enabler to action on sustainability. Nearly half, 46%, of the CEOs surveyed reported that recent developments in national and international policy on sustainability have created new business opportunities, and only 14% reported these developments as having been a hindrance to embedding sustainability within their company. Regulatory frameworks are seen by many leaders in the chemicals industry as an opportunity for competitive advantage: the REACH framework, for example, on the registration, evaluation, authorization and restriction of chemicals, is seen by many in the industry as a spur to greater efficiency in compliance, and a source of potential advantage in adapting to regulation better and faster than competitors.[56]

In establishing a level playing field and creating an imperative to adapt to new circumstance, government regulation can benefit those companies already leading their industries. But while the impact of government action can often bring benefits to those companies able to adapt, it is clear that lingering uncertainties over the direction of government policy are slowing the pace of change and deterring greater investment. As one CEO told us, "If the political framework in which we operate changes every year, then no one in industry will want to invest in the new technology that will bring us to tomorrow."

Additionally, it is clear that internalizing sustainability into markets through sometimes volatile and uncertain policy measures has created an impact on costs, with 50% of CEOs agreeing that it has raised their cost base. While costs of compliance are to be expected in adapting to new regulation, CEOs believe that clearer and more predictable action could reduce additional costs, and provide a clearer pathway for companies to plan their investments. From our conversations, it is clear that business leaders see governments and policymakers, for better and for worse, wielding a greater influence over the strategies for sustainability. But in our survey, just 11% of CEOs believe that governments have made good progress in the last three years in actively encouraging sustainability—suggesting that greater efforts will be required if governments and policymakers are to play a leading role in establishing a new global architecture for sustainable business.

The investor perspective: Insights from signatories to the Principles for Responsible Investment

The relationship with investors on sustainability has been a recurring theme of the CEO Study. In 2010, 86% CEOs told us that more accurate valuation of sustainability by investors would be critical in advancing sustainability. In many of our interviews, CEOs expressed a frustration that investors were not paying greater attention to their record on sustainability: they could do more, they said, if only investors cared.

This year, we set out to understand in greater detail the dynamic between companies and investors. It is apparent from our conversations that many business leaders perceive little progress in the last three years: this year, 67% see investors incorporating sustainability metrics and performance into valuations as an integral condition for progress, but just 31% believe that their company's share price currently includes value directly attributable to sustainability initiatives. While many business leaders see investor interest in sustainability gradually increasing in some quarters, it is not a critical driver for action: just 12% of CEOs report that pressure from investors and shareholders motivates them to invest in sustainability.

In our effort to understand how business leaders can better engage investors, we will be partnering later this year with the UN-backed Principles for Responsible Investment to conduct a parallel study of investors and asset managers. With over 1,000 signatories representing nearly $35 trillion in assets under management, the PRI Initiative is the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of sustainability issues, and to incorporate these factors into their investment decision making and ownership practices.[57]

With support from the PRI, many of the world's leading investors are now beginning to integrate sustainability issues into investment processes and dialogue with companies. But a disconnect remains. Companies still struggle to communicate to investors how sustainability initiatives are linked to their strategy, financial performance and valuation in meaningful ways. At the same time, investors say they need more and better information from companies about how they address material sustainability issues. Understanding the views of investors worldwide on sustainability can help both companies and their investors to make progress in valuing sustainability, and in integrating sustainability into the heart of global markets to enable business to have a greater impact on the world's most pressing challenges.

Look for the UNGC-PRI-Accenture investor study in early 2014 at www.accenture.com/ungcstudy.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CEOs believe that government intervention and regulation will be essential to provide an enabling environment for business action

From our research, there is strong and vocal support among CEOs for governments to play a leading role in shaping the landscape for sustainability: 83% of CEOs see an increase in efforts by governments and policymakers to provide an enabling environment for the private sector as integral to advancing sustainability. Carlos Fadigas, CEO of Braskem, told us, "Business has always had to comply with rules, so if the rules change in the right direction, business will change. But in society as a whole we haven't made this decision, so we are far away from doing as much as we could—or as much as we should."

Specifically, 85% of CEOs surveyed demand clearer policy and market signals to support green growth and, in the context of the discussions on the United Nations post-2015 development agenda, 81% of executives emphasized the need for governments to set a policy framework for economic development within the planetary boundaries of environmental and resource constraints. In the words of one senior business leader, "There is a problematic fragmentation in the discussion on sustainability, which is driven in part by the lack of clarity on our shared vision." Business leaders see a role for governments to support sustainability through international cooperation (81% of CEOs see international consensus on sustainable development priorities as essential to progress) and through binding regulation (84% report that clear global agreements and international regulation on climate change will help them to accelerate their efforts).

Business leaders believe that only with greater government intervention—at global, national and local levels—can sustainability move from sporadic incremental advances to a collective and transformative impact enabled by a new global architecture. "Transformation and getting to scale, fast: that's where we require new and different policy frameworks," said one CEO.

This call for strong and decisive government action is reflected in business leaders' beliefs on the most effective policy tools for governments to adopt. Their answers reflect a belief that government must intervene through 'harder' interventions: more than half of CEOs, 55%, include regulation and standards among their priorities for policymakers—"without standards, we can't get scale," said one; 43% call for governments to adjust subsidies and incentives; and 31% seek intervention through taxation. Softer measures draw significantly lower support: information and voluntary approaches are supported by only 21% of CEOs. Perhaps surprisingly—and almost certainly influenced in some quarters by the failure of the European Union Emissions Trading Scheme—just 15% see "trading schemes and markets" as an effective policy tool, the lowest of any option presented. Clearly, CEOs want policy and regulation that can provide long-term investment stability and clear impact, but are wary of future interventions that mimic previous failed initiatives such as the Emissions Trading Scheme.

This unequivocal call for greater government intervention in the market, from 1,000 CEOs in the largest study of its kind ever conducted, may mark a watershed in the progression of corporate sustainability. The transition toward companies promoting sustainability through the business case promised a new era of market solutions to global challenges, but in the face of limited progress business leaders are beginning to express doubts over the potential for greater scale and speed without active government intervention. From our discussions, it is clear that CEOs have not lost faith in the role of business; far from it. Rather, we see a strong recognition from CEOs that market rules need to be shaped to create a level playing field and a race to the top that rewards sustainability performance.

CEOs recognize the role that business can play in collaborating to shape regulation. "To maximize the potential for transformation," said one CEO, "we need to work in partnership and collaboration." While this may not be a comfortable role for CEOs to adopt—"most CEOs believe that they should keep their head down on issues which provoke controversy," said one business leader—they see a need to go beyond the narrow confines of industry-specific lobbying to engage constructively with national governments, international policymaking organizations and industry regulators.

Business leaders see a role for voluntary standards and codes of conduct, too, in taking a responsible approach to self-regulation and building trust in the role of business in policymaking. Collaborative initiatives such as the Extractives Industry Transparency Initiative (EITI), for example, brings together stakeholders from government, civil society, oil, gas and mining companies and investors to promote anti-corruption measures through ensuring the transparency of payments from natural resources. Formed to address the problem of poor governance preventing the proceeds of natural resources benefitting local populations, the EITI is a globally-agreed standard that asks companies to disclose payments to governments, and governments to disclose receipts. Through fostering greater transparency, the EITI provides a clear signal that national signatories are committed to accountability and good governance, and promotes greater stability for companies operating in the extractives industries.[58]

Similarly, the Sustainable Apparel Coalition (SAC) is an industry-wide group of more than 60 leading apparel and footwear brands, retailers, suppliers, non-profits and NGOs working to reduce the environmental and social impacts of apparel and footwear products around the world. The focus of the SAC is to improve water use and quality, to minimize energy, emissions and waste, and to achieve full transparency about the social and ethical impacts of companies' operations, safeguarding labor standards and human rights throughout the supply chain.[59]

As they seek to establish a new global architecture for sustainability, CEOs believe that with a commitment to action, business collectively can collaborate with governments to reshape markets and systems to reward sustainability leaders and enable business to lead the way in tackling global challenges. "If we want to take the big swings," said one CEO, "then we need clear policy, incentives, changes and signals."

83% **of CEOs believe that government policymaking and regulation will be critical in harnessing sustainability as a transformative force.**

Changing roles: Partnerships, convergence and NGOs in advancing sustainable development

The changing role of nongovernmental organizations (NGOs) has long been a focus of this study and of wider discussions on business efforts to advance sustainability. In 2010, one of the most striking findings of our survey was a decline in their perceived importance, with just 15% of respondents (from 27% in 2007) ranking NGOs among the most important stakeholders in influencing their approach to sustainability. From our conversations with CEOs, we saw a shift in the role of NGOs from vocal advocates and agenda-setters to local delivery partners for social and environmental initiatives.

This year, we see a further shift in perceptions of NGOs, as business leaders begin to see a convergence of sectors in new collaborations and partnerships to address sustainability issues. The apparent importance of NGOs in setting the agenda for sustainability remains unchanged, with just 15% of CEOs ranking them among their most important stakeholders. But while this may be an unwelcome challenge to NGO leaders, it is evident that CEOs see civil society playing an integral part in enabling companies to deliver on their ambitions for social and environmental impact. Some 78% of CEOs believe that partnerships and collaboration across sectors will be instrumental in the way that their company delivers positive social and environmental outcomes over the next five years, and 70% see a need to take action through on-the-ground partnerships and projects to deliver sustainability outcomes; despite often patchy results in the past, business leaders are firmly committed to partnering with NGOs to engage more fully in the development agenda. As Dr. Yılmaz Argüden, chairman of ARGE Consulting and chairman of the Global Compact Network Turkey, told us, "The sustainability of our future is the common responsibility of all of us: the governments, companies, NGOs and citizens of the world. Yet for all of us to work together, we need to build trust among all stakeholders."

This convergence of sectors—in which providing solutions to social and environmental challenges is not the preserve of single actors, whether corporate, government or from civil society, but instead a constant shared commitment unconstrained by traditional, sector-specific roles—comes from an acknowledgment that each actor can bring its own resources, skills and understanding. As business feels a greater responsibility to directly address sustainability challenges and begins to understand the long-term advantages and opportunities in doing so, many companies are realizing the shortcomings in their ability to deliver positive impact in the communities in which they operate. Similarly, resource-constrained governments and NGOs are looking to business to provide capital investment, human resources and global reach to enable them to scale solutions to some of the world's most pressing challenges.

Global banking giant HSBC, for example, has embarked on its Water Programme, a five-year, $100 million partnership with WWF, WaterAid and Earthwatch Institute. Working with WaterAid, the program is reaching 1.1 million people with safe water and 1.9 million people with sanitation across Bangladesh, India, Nepal, Pakistan, Nigeria and Ghana. With WWF, the program is working with local authorities, businesses and communities to implement new practices and policies that help protect five priority freshwater places: the Yangtze, Ganges, Mekong, Pantanal and African Rift Valley. Earthwatch has set up research projects in 25 cities worldwide, working with local conservation partners and HSBC volunteers to address urban water management issues and creating a global freshwater database. The impact of providing universal access to safe water and sanitation in the BRIC countries—Brazil, Russia, India and China—alone is predicted to generate annual economic benefits of $125 billion, or 1% of their collective 2010 GDP, boosting the economic health of new markets critical to the bank's future growth.[60]

As the notion of convergence takes hold in the minds of business, government and civil society leaders, CEOs are beginning to see a transition toward long-term partnerships—not single-issue, arm's length cooperation, but genuine collaboration as issues and interests coincide in the innovation and provision of new solutions. In addition to traditional public-private collaboration, business leaders told us that they are equally willing to explore business-to-business, or "private-private," partnerships: 54% of CEOs are already prepared to co-invest with other companies to make progress on sustainability issues. The World Economic Forum's "A New Vision for Agriculture," for example, brought together 17 global partners to collaborate on an agreement that changes agricultural practices to improve food security, environmental sustainability and economic opportunity. Since its inception in 2010, seven projects have been launched across Africa and have successfully mobilized $3 billion from 49 leading organizations around the world.[61]

These partnerships, both within industries and across sectors, remain an emerging option: many NGOs are still skeptical of business involvement, and just 45% of CEOs report they have already seen tangible business opportunities and value arising from collaboration with NGOs. But in the context of business leaders' frustration with the pace of change, and a recognition in civil society that greater resources and support will be required to accelerate progress against the Millennium Development Goals, CEOs retain their faith in the potential of new partnerships and business models, and they believe that convergence will be critical in designing new approaches to the world's most intractable challenges.

Chapter 4

The agenda for action: A model for sustainability transformation

Successful companies are not waiting for government action

Proactive companies are not waiting for policymakers to act. As one CEO told us, "In Rio, the business community realized that we cannot count on the politicians, so we ourselves have to take this forward." Our conversations with CEOs suggest that in the absence of government intervention, leading companies are already harnessing the potential of sustainability: moving from a reactive approach of responding to societal expectations and regulatory demands, transformative innovators are now driving sustainability as an engine for innovation and growth. For these companies, sustainability is at the heart of their strategies, and their performance will determine their future prospects for success.

In moving beyond individual achievement, though, and towards a shared global architecture for corporate sustainability, business leaders are clear in their belief that greater collaboration will be required. While the search for value remains at the heart of the business incentive to invest, CEOs believe that they must also go beyond the opportunity to create competitive advantage, and work together within and across industries to find common ground, share risks, invest in new technologies, and coalesce on solutions that can unlock the full potential of the private sector in addressing global challenges. As one business leader in the communications sector told us, "We have an opportunity and a responsibility to identify and scale solutions that we know can work to address development challenges."

Business leaders see an urgent need to move beyond the boundaries of the firm to collaborate more effectively and promote greater impact. As Dr. Martha Tilaar, founder of cosmetics company Martha Tilaar Group, put it, "Sustainability cannot be achieved by business alone; it is a pervasive philosophy on which every participant in the global economy should collaborate." And in the words of Marilyn Carlson Nelson, chairman of Carlson, "Each of us has to inform each other and come together in new and exciting ways in order to be transformative."

Individual innovation is scaling up to collaborative transformation

The advances of leading companies, their technological innovations, and their adoption of large-scale, collaborative projects targeted directly at the priorities of global sustainable development, are beginning to demonstrate how business impact can be scaled beyond incremental advances and efficiency gains. Leading companies in the pharmaceutical sector, for example, see a clear opportunity in addressing the urgent challenges of global health and well-being. In 2010, GlaxoSmithKline and Novartis joined 11 other companies; the U.S., United Kingdom and United Arab Emirates governments; the Bill & Melinda Gates Foundation; the World Bank; and other global health organizations to launch a coordinated effort toward eliminating or controlling ten neglected tropical diseases by 2020. The project's partners committed to sustain or expand existing drug donation programs to meet demand through 2020; share expertise and compounds to accelerate research and development of new drugs; and provide more than $785 million to support R&D efforts and strengthen drug distribution and implementation programs.[62] For the partner companies themselves, their contributions to widening access to their innovations can grow new markets, while building relationships with host governments and international organizations: a meeting point of societal impact and business reward that enables leading companies to scale their efforts at greater speed. As Sir Andrew Witty, CEO of the global pharmaceutical company GlaxoSmithKline, told us, "To make progress, we have to ensure that we continue to reward innovation, at the same time as driving improved efficiency and productivity. By doing this we can promote even greater access to medicines in new markets."

84% of CEOs believe that business should lead efforts to define and deliver sustainable development goals.

Closing the loop: Innovation and the circular economy

A recurring theme in this year's interviews has been the potential for closed-loop, or circular, value chains and business models to scale the impact of sustainability initiatives across multiple sectors and industries. In the context of increasing pressures on scarce resources, and rising costs and volatility for business, circular economy models, with their aim to decouple growth from resource use, environmental and social impact, are increasingly attractive to companies seeking disruptive innovation in the search for sustainability impact and business value. In the words of Paul Walsh, CEO of Diageo, "Closed-loop models represent 'real' sustainability: the system works in a mutually beneficial and sustainable way."

Traditional linear business models encourage increased consumption and more waste; moving toward a circular economy has tangible benefits for production costs, the environment and the supply chain. In a recent study, 52% of companies reported that raw materials make up a third or more of their total costs, 75% have experienced rising costs in the past five years, and 87% expect material costs to increase over the coming decade.[63] Research estimates that circular economy models can achieve a 50–90% reduction in a product's environmental footprint:[64] closing the loop is not just desirable for its impact on resource use and waste; from our conversations with CEOs, it seems increasingly to make good business sense. As one CEO in the consumer electronics sector told us, "Our innovation must be meaningful and service the circular economy."

Absent almost entirely from our conversations in 2010, the concept of the circular economy has taken quick hold among CEOs focused on innovation and the potential of new business models. Already, a third of CEOs in this year's survey report that they are actively seeking to employ circular economy models. In the consumer goods sector, for example, leading companies are exploring new models to reduce cost and build competitive advantage. In the automotive industry, for example, our survey data suggests that 43% of CEOs in the sector are already looking to the circular economy as a source of competitive advantage. Audi, for example, in an industry with a mandatory recyclability rate of 85%,[65] has gone beyond this base requirement and achieved a 95% rate at its Ingolstadt facility by employing circular economy models, in the process cutting costs and improving its sustainability record.[66] As Prof. Rupert Stadler, chairman of the board at Audi, told us, "The circular economy and the decoupling of growth and impact isn't a future trend—it's our current reality."

The rise of the circular economy is a spur for many leading companies to innovate for advantage. As Frans van Houten, CEO of the multinational engineering and electronics conglomerate Philips told us, "Through meaningful innovation we can make the world healthier and more sustainable." Philips itself has harnessed the potential of closed-loop models: as part of its Ecovision 5 program, established in 2010, the company aims by 2015 to double the collection and recycling of end-of-life products, at the same time as doubling the amount of recycled materials used in its products. Through focusing not only on product innovation itself, but also on molding buying behaviors to promote the adoption of circular economy solutions that reduce the whole-life cost of its products and services, Philips has grown new markets for its lighting solutions, which now account for one-third of the company's revenue.[67]

Alongside these innovations at scale, many other companies have already seen pilot projects, at local levels, create value and offer differentiation with innovative closed-loop systems. While the full potential for transformation and scale remains uncaptured, the opportunity is immense. CEOs acknowledge the need to collaborate with industry peers, across sectors, and with governments to achieve the desired impact: As the CEO of China's ZTE Corporation, Lirong Shi, said, "We see a favorable policy and regulatory environment for the circular business model in the United States. I am confident that China will adopt a policy of this kind in the near future, so this is a challenge as well as an opportunity: if we can innovate in this regard, the contribution and profits can be profound." With effective collaboration and market support for circular economy models, companies can begin to find the meeting point between sustainability impact and business advantage, and radically scale up their impact on global priorities.

Digital technology: Empowering new solutions

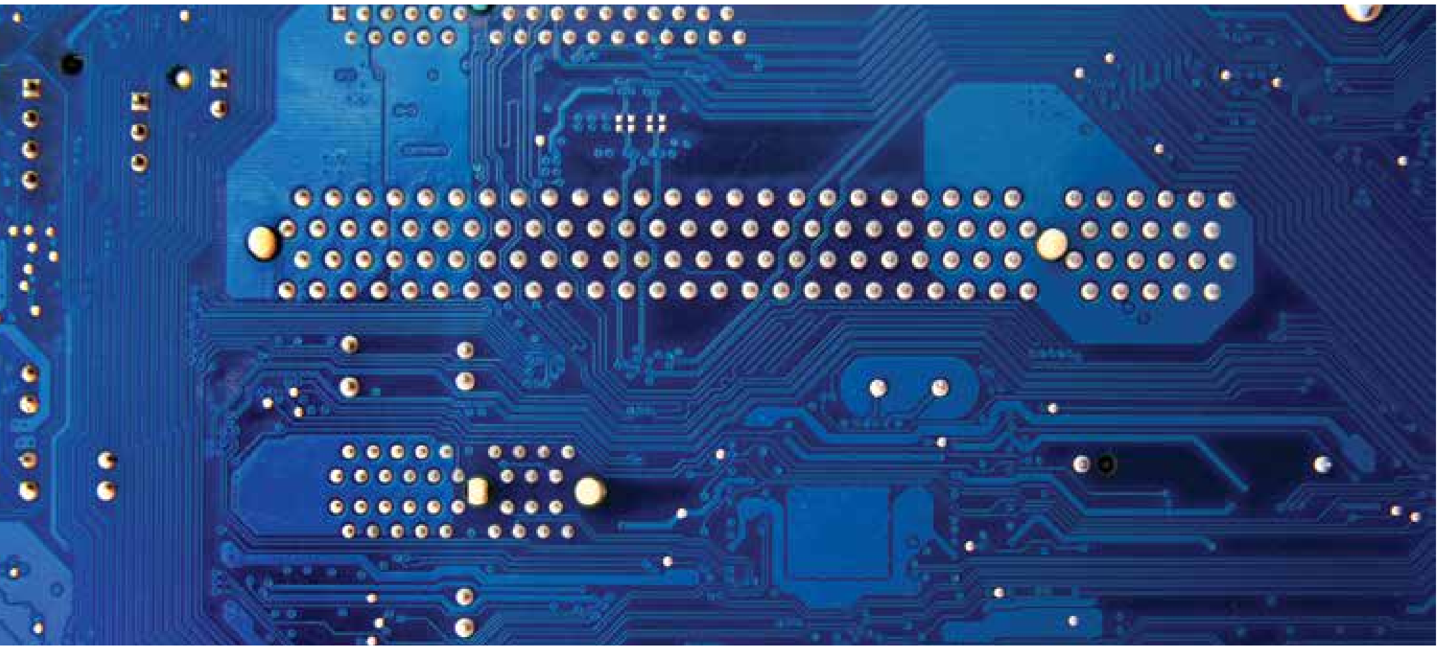
This year, many of our conversations with CEOs have centered on the opportunity for digital technologies to empower sustainability solutions: as one CEO in the global communications sector told us, "Don't underestimate what technology can do to achieve development goals." Increasingly, CEOs see disruptive technology innovation as the underpinning for change and growth, and are turning to digital infrastructure in order to enable their company to create sustainability impact while generating business value. Fully 84% of CEOs report that they are actively investing in and employing new technologies to advance sustainability objectives. As Carlos Fadigas, CEO of Brazilian petrochemical company Braskem SA, told us, "Important solutions will come from innovation and technology developed by companies."

Many companies have already demonstrated the potential for digital technologies to improve operational efficiencies and reduce energy and resource requirements. Leading businesses are now moving beyond incremental improvements, and extending that remit by innovating digital technologies and infrastructures that can enable large-scale sustainability initiatives. The potential of digital technologies can be seen in areas such as resource efficiency, as smart infrastructure helps to support large-scale efficiency programs, and in providing improved customer experience, but also in creating more connected business models that benefit from improved communication technologies. NEC Corporation, for example, a Japanese IT solutions provider, has reshaped its vision to reflect a new role as a social infrastructure provider in response to changing needs in the region. NEC put its vision to the test by working with Chugoku Electric in 2013 to develop a large-scale fault detection system at Shimane Nuclear Power Plant.[68] As NEC President Nobuhiro Endo explains, "Big data and correlation technology are not necessarily new concepts, but currently only 1–2% of global data is being utilized: when we are able to realize the potential value from data, that is when we will cause a paradigm shift."

One of the most visible impacts of digital technologies has been in the rise of the intelligent city. The UN estimates that cities are responsible for 75% of the world's energy use and that they produce more than 70% of global carbon dioxide emissions.[69] Governments are looking for sustainable urban infrastructure that can reduce emissions, cut costs and improve quality of life. In doing so, they are presenting business with an opportunity to provide new solutions. LM Ericsson, for example, is driving the transition to a low-carbon economy in Sweden by leading the Smart Communication project in Stockholm Royal Seaport (SRS). The company is helping SRS reach its goal to be climate-positive by 2030 by mobilizing a more connected city, focused on CO_2 reduction and sustainable transport options. Digital infrastructure will provide the "glue" for a platform of systems, such as an intelligent grid to reduce energy usage in buildings and energy production. Ericsson is also leading a mobility management study to determine how travel and transport can be optimized and substituted with low carbon solutions that reduce direct emissions from vehicles. With environmental technological innovations and integration, SRS is expected to cut emissions by 1.5 tons of CO_2 per capita by 2020.[70]

The example of intelligent cities, though, illustrates one of the prevailing themes of this year's study: pilot paralysis. While there has been significant investment and exciting achievement in many of the world's largest cities, the scale and speed of investment is being hindered by misaligned incentives and an unclear policy landscape. Through the course of our interviews, many CEOs told us that they saw new technologies ready to implement that could have a dramatic effect on sustainability objectives. In the words of one business leader, "The technology exists to solve the climate problem: 70% of the technology is available today, and the financing is available, too." In order to capitalize, companies must discover and deploy new business models to enable new technologies at scale, while at the same time actively collaborating to drive new regulation and policy frameworks that can provide the necessary enabling environment.

The role of digital technology in facilitating sustainable solutions is clear; opportunities in value creation and differentiation are on the horizon. We may begin to achieve speed and scale in transformation only when business is able to capture the potential from digital infrastructure solutions and digitization. As Praveer Sinha, CEO of Tata Power Delhi Distribution, told us, "The technology transformation has to come; technology is the game changer."



A two-speed world is emerging in sustainability

This accelerating action and commitment to innovation among companies that have managed to make the business case for sustainability is leading to a "two-speed" economy. These companies see an urgency to scale action at speed. As one CEO told us, "The pace of change is too slow; it's often a question of culture, or people's mindsets—before we decide, we think, and discuss—and that's a time-consuming process." And in the words of another senior business leader, "When you have the ideas, take action faster—you can spend hours discussing what to do, but we should try to get to the heart of the issue quicker, prioritize and take action."

Among sustainability leaders, we can see the beginnings of a collaborative, systems approach to sustainability, focused on the impact business can make. As Paolo Scaroni, CEO of Eni, said, "We look to differentiate ourselves through the strong reputation that comes from the positive impact we have on the economies and societies in which we operate." Sustainability leaders are seizing opportunities at speed through building skills, measuring value and performance, and improving the dialogue with consumers, investors and governments. Among these leaders, we can see the seeds of a new approach to sustainability, with pockets of real innovation beyond the four walls of the firm: collaborating within and across industries and sectors, working closely with stakeholders to develop the beginnings of transformational change. At its heart is a move beyond incremental firm-level initiatives, toward an embracing of collaborative action that can drive value creation at the same time as converging on new systems and solutions that enable entire industries to better align global markets with sustainable development, and forge a new global architecture for corporate sustainability.

Transformational Leaders are approaching sustainability differently, providing a model for greater impact and business value

Throughout the lifespan of this study, it has been clear that strong leadership will be critical in advancing corporate sustainability. This year, the Global Compact and Accenture study team set out to investigate the links between CEOs' attitudes and the performance of their companies against traditional business performance metrics and sustainability leadership indicators. To our knowledge, this is the first time that this has been undertaken with a CEO-level group.

While extensive work has been done on the correlations between companies' commitment to sustainability and traditional metrics of business performance,[71]—often referred to as the 'business case' for sustainability—the CEO Study presents a unique opportunity to examine how business leaders' beliefs, attitudes and behaviors influence their strategies and investments, as well as set the trajectory of their companies in driving advantage through sustainability. Ultimately, the unique contribution of this year's UN Global Compact-Accenture CEO Study is, for the first time to our knowledge, to be able to triangulate between the way CEOs frame, think and act on sustainability, and to compare this with more objective data on their business performance and sustainability leadership.

An examination of survey responses from those companies covered by this year's study and by Accenture's long-term High-Performance Business research program produces a striking conclusion. CEOs of companies that combine sustainability leadership with market-leading business performance approach sustainability in markedly different ways—different motivations, different influencers and different areas prioritized for investment—than those who are currently failing to achieve this distinction (see "High performance and sustainability leadership", p. 51).

Together with the insights from our in-depth conversations with CEOs, these findings may begin to lay the foundations of a deeper understanding of how companies can drive sustainability to competitive advantage. At its heart is a different approach by CEOs, moving beyond reactive, incremental responses to external pressures and toward a new understanding of sustainability as an opportunity for innovation, competitive advantage, differentiation and growth. Leading CEOs are already uncovering strategies for sustainability that allow them to deliver both value creation for their companies and impact on global challenges.

Our in-depth interviews with CEOs, together with the findings from our analysis of those companies achieving superior business performance and sustainability leadership, give an early indication of how leading companies are setting themselves apart. Through significantly different approaches, beliefs, attitudes and behaviors, these companies are not only engaging in business efforts to reshape global systems, but also competing to win under current market conditions.

Special Focus

High performance and sustainability leadership

Our analysis compares the business and sustainability performance of 77 of the largest companies that responded to this year's survey. Using Accenture's methodology to assess high-performing companies, based on eight metrics of current performance and future positioning,[72] and an aggregate of the four leading sustainability indices,[73] we isolated four distinct segments among companies' approach to sustainability as a route to impact and value creation.

The 77 companies in our sample were assessed first against Accenture's 2012 analysis of 2,000 companies across 40 industry sectors,[74] using Accenture's High-Performance Business methodology to score corporate performance against metrics of historical and current financial performance and future positioning. Companies were scored across three- and seven-year time horizons on shareholder performance; profitability; revenue growth; consistency in value creation; and assessed against future market expectations; market differentiation; market position; and fuel for growth. On the basis of this analysis, our sample was divided into two groups, those underperforming and outperforming their respective industries, and then checked for inclusion as a recognized sustainability leader in one or more of the four 'most credible' sustainability indices, as ranked by SustainAbility's 'Rate The Raters' analysis: DJSI (RobecoSAM), the Carbon Disclosure Project Leadership Index, the FTSE4Good Index Series and the Global 100 Most Sustainable Corporations. The results allowed us to position each company in one of four quadrants:

Figure 12: Transformational Leaders are combining sustainability leadership with superior market performance

"Notional": companies regarded as neither high-performing businesses nor sustainability leaders, underperforming their industry peer group and not regarded as a sustainability leader by any of the four leading indices; these companies may be struggling to devote resources to sustainability or may not have constructed the business case for action and are making largely notional efforts.

"Transactional": high-performing businesses not regarded as sustainability leaders; action on sustainability may be prompted by a short-term, quantifiable business case, but leaders may be unwilling to go beyond a transactional approach with immediate and discernible payback.

"Vulnerable": sustainability leaders underperforming their peers on traditional business metrics; leadership position in sustainability may be vulnerable without turning leadership into business advantage and value creation.

"Transformational": companies regarded as sustainability leaders that are also outperforming their industry peers on traditional business metrics; these companies may be finding ways to monetize sustainability and link action directly with a quantifiable business case, turning sustainability to competitive advantage through potentially transformational new approaches.

The "Transformational" quadrant gives 21 companies in our sample that are managing to combine externally recognized sustainability leadership with market outperformance in their industry. The companies are distributed across 14 countries in every major region; across industries including consumer goods, shipping, insurance, mining, chemicals and pharmaceuticals; and represent more than $900 billion in combined annual revenue.

An analysis of responses from the companies within this segment, the "Transformational Leaders", highlights several observations that may give an early indication of the leadership beliefs, attributes and behaviors that are shaping those companies able to drive business value through sustainability. Indications from the data suggest that Transformational Leaders are more likely to:

Regard environmental and social issues as important to the success of their business: Leading CEOs are more likely to prioritize issues such as climate change and water security, to which they attach greater importance than any other sector in our analysis. The global survey suggests that "growth and employment" has become the critical issue for the majority of CEOs when considering the importance of sustainability to their business. But just 38% of CEOs of transformational companies ranked growth and employment among their top three priorities—compared with 64% globally and fully 70% of companies making apparently "notional" efforts on sustainability.

Reject traditional perceptions of sustainability as philanthropy: Just 5% of CEOs in the "transformational" segment—versus 51% globally—believe that sustainability is primarily an opportunity to give back to local communities through charitable activities. Similarly, 81% see sustainability as an opportunity for growth and innovation, an approach taken by just 65% of CEOs at "notional" companies.

Engage investors on sustainability: 76% of transformational CEOs (compared with 52% globally and 36% among those taking a "transactional" approach) see investor interest as an incentive to invest in sustainability, and 52% believe that their company's share price already includes value directly attributable to sustainability initiatives—a belief shared by just 25% of CEOs in the "notional" segment.

Believe in the transformational potential of partnerships with NGOs and others: 100% of CEOs of transformational companies (versus 78% globally) believe that cross-sector partnerships will be instrumental in enabling their company to deliver positive social and environmental outcomes over the next five years. And a third see NGOs as one of their most important stakeholders, a view shared by CEOS at just 10% of "notional" companies and 15% globally.

Measure and reward sustainability in employee performance assessments and remuneration: CEOs of companies driving performance through sustainability share a strong belief that these priorities should be reflected through the performance and remuneration mechanisms of their employees. Fully 86% believe sustainability should be integrated into these discussions, and 67% report that they already do; among companies in the notional segment, 60% believe they should, and just 55% report that they already do.

From our research, we see seven key themes emerging that are enabling these transformational leaders to achieve both value creation for their companies and impact on global challenges.

1. Realism & context: Understanding the scale of the challenge—and the opportunity

Throughout our interviews, it was clear that those companies taking the most ambitious action on sustainability were also the most realistic about the scale of the challenge. Our survey data suggests that companies combining sustainability leadership with market-leading business performance are more likely to acknowledge that the world is not on track to meet the needs of a growing population—and are more likely to admit that business is not doing enough. Understanding the challenge also allows these companies to appreciate the opportunity and for future growth in providing solutions to sustainability issues and to target strategies to achieve it.

2. Growth & differentiation: Turning sustainability to advantage and value creation

With wide disparities in the ability of different industries to monetize sustainability in the short-term, one of the clearest insights from this year's study is the emergence of a two-speed world in sustainability, between those companies still reacting to external expectations on sustainability and focusing on incremental mitigation, and those that see sustainability through the lens of growth and differentiation. For leading companies, the urgency of global challenges provides an opportunity to differentiate their products and services, through superior performance on environmental or social measures, such as lower energy consumption or the generation of local employment; to access new market segments, through the development of new products designed to tackle the sustainability priorities of their customers and consumers; and to grow into new regions, countries and areas where their products can meet a pressing need.

3. Value & performance: "What gets measured gets managed"

The past decade has seen an unprecedented rise in companies measuring and reporting sustainability metrics: from carbon emissions to water footprints, tracking environmental measures is now commonplace across industries. For companies seeking to go beyond incremental change and tackle global sustainability issues, the challenge is two-fold: not just to measure and manage metrics of reduction and mitigation, but also to quantify the value of sustainability to the company and to track their impact on the communities in which they operate.

4. Technology & innovation: New models for success

As ever-greater challenges demand ever-greater solutions, our data suggests that leading companies are turning to innovation and technology to provide the tools with which to address sustainability challenges and secure business advantage. Environmental and resource constraints, and growing social pressures, are acting as a stimulus for innovation: From investment in renewables, to intelligent infrastructure enabled by machine-to-machine communications technology, to new closed-loop business models, leading companies are securing business advantage through innovative R&D and deployment of technologies ranging from industrial solutions to "smart" information communication technology such as cloud computing and analytics.

5. Partnerships & collaboration: New challenges, new solutions

As sustainability issues have risen up the corporate agenda and business leaders have seen these issues playing an ever-greater role in determining prospects for future success, we have seen a growing confidence that business can provide solutions to tackle global challenges. This year, in the context of intensifying pressures and flagging efforts, CEOs more readily acknowledge the role of collaboration and partnerships in meeting their ambitions on sustainability. Business can lead the way, they believe, and can maximize companies' impact through close partnerships with governments, policymakers, consumers and NGOs.

6. Engagement & dialogue: Broadening the conversation

As the conversation on sustainability widens, and expectations on business grow, leading companies are increasingly set apart by their understanding of, and responsiveness to stakeholders, often as they manage complex and competing interests. Business leaders are more conscious of the need to establish a constructive, two-way dialogue with consumers and local communities; regulators and policy makers; investors and shareholders; employees and labor unions. Rather than simply acting and then communicating, CEOs are actively engaging stakeholders to negotiate the role of their business in addressing global challenges.

7. Advocacy & leadership: Shaping future systems

Leading CEOs are clear that business efforts are not sufficient to set the global economy on track—but believe strongly that business should lead the way toward defining and delivering a sustainable global economy, not least through the post-2015 development agenda. They are realistic that individually they can have only so much impact, but recognize a need to play a part in collaborative solutions with governments and other stakeholders. Companies positioning for success in an era where sustainability performance will play a greater role in determining industry winners and losers are committed to shaping future systems—and are vocal in advocating for and leading the business contribution to the development of a sustainable economy. From developing new measures of success, to engaging with public policymakers and leading calls for free and open markets, business leaders' advocacy and public commitment are integral to further progress.

The Transformational Leaders: Seven Steps to Sustainability and Success

		Example actions	% of respondents selecting 'Agree' and 'Strongly Agree'		
			Transformational	Notional	Global average
Realism & context	Understanding and appreciation of the scale of global sustainability challenges—and the opportunities they present.	Engage in scenario planning and business impact modeling.* Scan the horizon for future opportunities.	Business as a whole is making sufficient efforts to address global sustainability challenges.		
			14%	20%	33%
Growth & differentiation	Sustainability as an opportunity to stand out with consumers and customers; to access new market segments with new products and services; and to grow into new markets.	Innovate to solve specific environmental and social challenges. Seek opportunities to enter new markets through addressing sustainability challenges.	My company approaches sustainability primarily as an opportunity for growth and innovation.		
			81%	65%	78%
Value & performance	Measurement, monitoring and management of sustainability metrics; quantification of business value; and tracking of impact on sustainability outcomes.	Integrate sustainability metrics into financial reporting. Measure and track impact on community and society. Build sustainability into employee assessment and reward.	My company practices integrated reporting of financial and sustainability metrics.		
			67%	45%	49%
Technology & innovation	Investing in technology and business model transformation-led solutions to sustainability challenges; generating competitive advantage through new technologies and innovative business models.	Develop new business models, e.g., circular economy. Deploy new digital technologies, e.g., data analytics. Harness demand for smart infrastructure and Intelligent Cities.	My company will invest in and deploy new technologies on sustainability in the next five years.		
			95%	95%	84%
Partnerships & collaboration	Partnerships within and across industries and sectors to find new solutions for sustainability.	Cooperate with industry peers to develop voluntary standards. Partner with NGOs and other groups to maximize on-the-ground impact.	Cross-sector partnerships will be instrumental in enabling in delivering positive social and environmental outcomes over the next five years.		
			100%	75%	78%
Engagement & dialogue	Listening to and understanding the needs and wants of all stakeholders; establishing constructive two-way dialogues to negotiate the role of business in sustainability.	Collaborate with consumers to design new products and services. Work with investors to quantify and communicate the business value of sustainability.	Investor interest is currently an incentive to invest in sustainability.		
			76%	65%	52%
Advocacy & leadership	Leadership in developing new systems and shaping the business contribution to global challenges; willingness to advocate for policy and market incentives that change the game.	Publicly advocate for a greater business contribution to sustainability. Actively engage with governments and policymakers to shape future regulation and systems.	Business should lead efforts to define and deliver sustainable development goals.		
			90%	75%	84%

NB examples represent typical actions and behaviors observed in our interviews and are not intended to be an exhaustive list.

Architects of a better world:

Aligning business action with global priorities

As business leaders across the world come together this year to set out an architecture to align their activities with global priorities, there is a clear and unequivocal call for greater ambition, greater speed and greater impact. Accelerating progress demands a step change in ambition and action: companies can have more impact on global challenges not simply individually through new products, services and business models, but collectively through innovating new systems, markets and structures. As Hans Vestberg, president and CEO of Ericsson, said, "We have the potential for enormous impact on society: from education and health to disaster relief—these challenges give us a platform for a huge transformation." At the heart of this transformation will be a new commitment to collaboration, as businesses look beyond the firm to forge a global architecture that can lift the global economy from the current plateau toward a new summit of peak performance.

CEOs see the Global Compact at the center of this collaboration. The Global Compact has come a long way since 44 chief executives met for the first time under UN auspices in 2000. The condition for participation was, and remains, a voluntary but public commitment by businesses to respect and uphold UN principles on human rights, labor standards, the environment and anti-corruption and to report publicly to stakeholders on actions in support of these principles annually. The Global Compact now comprises nearly 8,000 companies and 4,000 civil society organizations, making it the largest corporate sustainability initiative in the world today. But numbers tell only a part of the story.

In the view of global CEOs, harnessing business as a force for sustainable development will require a robust architecture that can broaden the participation of companies, deepen commitments on core issues, upgrade partnerships and collective action, and strengthen capacity for implementation at the national and local levels. Through the UN Global Compact, issue platforms have taken shape on women's empowerment, children's rights, climate and energy, water management, and anti-corruption; its Women's Empowerment Principles and Caring for Climate initiatives, for example, are the world's largest business platforms for action on these issues.

In this year's survey, the Global Compact's role in collecting and sharing good practice examples, developing tools and guidance materials, and establishing platforms for collective action are the most powerful actions called for by CEOs, signifying a recognition that, to accelerate progress and achieve greater impact, companies will have to learn from others within and across industries, and actively collaborate "on the ground." As Cho Hwan-eik, president and CEO of the Korea Electric Power Corporation, told us, "The Global Compact can help us to work together to understand critical issues, set common goals and commit to actions that can address global challenges."

This year, CEOs are unequivocal in their belief that the global economy is not on the right track—and that business is not doing enough to address global sustainability challenges. They see their companies stuck on a plateau of incremental achievement, uncertain of the way to the summit of greater impact and business success. But among sustainability leaders, we can see the beginnings of a collaborative, systems approach to sustainability, focused on the impact business can make. These companies are seizing opportunities at speed through building skills, measuring value and performance, and improving the dialogue with consumers, investors and governments. Perhaps most importantly, they are aligning sustainability with value creation, and seeking to create real advantage—put another way, competing through sustainability.

We can see the seeds of a new approach to sustainability, with pockets of real innovation both within the firm and beyond its four walls: collaborating within and across industries and sectors, and working closely with stakeholders to develop the beginnings of transformational change that can put in place an architecture that mobilizes the business contribution to the post-2015 agenda. Through the innovations of these leaders, we begin to see a pathway for business to make rapid and meaningful progress on the journey from sustainability's plateau of good intentions toward a summit where global markets are aligned with sustainable development, enabling business leaders to truly become the architects of a better world. In the words of Chuck Fowler, Director of Fairmount Minerals, "Business is the agent for world benefit; business is going to make these changes. Business will be the focal point for getting sustainability into our society."

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About the UN Global Compact

The UN Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues. By doing so, business can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

Endorsed by chief executives, the UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world—with over 12,000 signatories from business and key stakeholder groups in 145 countries, and more than 100 Local Networks. For more information, visit www.unglobalcompact.org.

About Accenture Sustainability Services

Accenture Sustainability Services helps organizations achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth, while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes.

Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights into sustainability issues based on our on-going investments in research, including recent studies on consumer expectations and global executive opinion on corporate sustainability and climate change. To find out more about how Accenture can help you meet your sustainability imperatives and chart a course toward high performance, visit www.accenture.com/sustainability. Please also join our on-going conversation about sustainability, business and policy by following us on Twitter @ActSustainably and on Facebook at www.facebook.com/accenturesustainabilityservices.

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Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

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