Sustainable Value Creation

Closing the gap between stated commitments and operational realities

Authored by: GlobeScan

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Foreword

How sustainability drives value creation has become a more urgent question in recent years. There is growing attention from employees, consumers, regulators, and investors and this has sparked numerous controversies.

In the summer of 2023, Robert G. Eccles and Alison Taylor published an article in *Harvard Business Review*, The Evolving Role of Chief Sustainability Officers. Their research highlighted that companies leading the sustainability charge had a more commercial and integrated approach throughout the business. Sustainability was factored into the overarching business strategy, with all members of leadership on board. Naturally, this required a capital investment, which necessitated alignment with the CFO and integration of sustainability into core governance.

This report now looks at the full spectrum of practices in corporations, showing a large gap between a limited number of leaders and the laggards that make up the majority of the market. We see a world where companies say they focus on sustainability as a tool for value creation but lack the capital allocation and operational focus to back this up. Many reasons are given for what gets in the way, but there is limited commitment to tackling them.

In a politicized context, this can create the worst of all worlds. Companies are judged to be distracting from their fiduciary duties because they spend time and resources on press releases and board meetings about sustainability but don't demonstrate bottom-line outcomes. It used to be the case that a sustainability strategy had more to do with attractive storytelling than managing the critical environmental and social issues that matter for value creation. Now, with a spotlight on greenwashing, hypocrisy, and political backlash, storytelling without substance can both damage the bottom line and fail to deliver impact.

The solution is not running away from sustainability as value creation. Rather, companies need to back up their rhetoric with practical action, closing the key gaps of capital allocation, implementation, integration, and data to understand and deliver the full value of sustainability. New reporting requirements are combining with sharper investor attention and will enable companies to better demonstrate the contribution of sustainability to value creation – if they are doing it for real. The imperative now is to place sustainability at the core of strategy, rather than treating it as a siloed, reporting-focused effort.

Executive Summary

In November and December of 2023, we surveyed 234 senior leaders from a wide range of industries about the value of sustainability. Respondents were in a range of functions, including sustainability, finance, and technology. The purpose of this research was to better understand how companies see sustainability as a driver of value creation, the barriers this faces, and the progress on integration especially within finance and technology functions. This report summarizes what we heard.

Headline findings:

Senior leaders describe themselves as committed to and focused on sustainability, but capital allocation and other operational decisions tell a different story. While most senior leaders see sustainability as commercially important, only half of senior management teams are highly focused on it, and only half of them allocate significant capital to it. This is the challenge this paper explores – that despite a large amount of rhetoric given to sustainability, companies have shown limited action and a lack of meaningful progress on creating value from sustainability.

We've identified four gaps that stand in the way of making sustainability meaningful to corporate strategy and value creation: capital, implementation, integration, and data.

Executive Summary: The Four Gaps

01

The capital gap: Despite high importance, capital is limited

Over 90% of survey respondents say that sustainability is "very important" (67%) or "fairly important" (26%) to commercial success. The research shows that about 50% of senior management teams say they are highly focused on sustainability risks, opportunities, and impacts, yet only about half of those cases are getting the level of capital necessary to mitigate the risks, seize the opportunities, or manage their impacts.

02

The implementation gap: Sustainability is seen as creating value mainly through reputation, not operations

Our respondents see sustainability delivering the most value in areas of marketing and PR namely enhancing the company's brand and reputation, strengthening stakeholder and community relationships, and facilitating partnerships and collaborations. These areas are focused on perception, are difficult to associate with monetary value, and are divorced from operation. Fewer see sustainability contributing to the commercial areas of the business, such as growing sales, attracting investments, ensuring a stable supply chain, reducing costs, and managing climate risk. Activities closely associated with such commercial areas are what typically drive capital allocation, so the weak progress becomes easier to understand.

When asked about the most helpful actions to unlock more value from sustainability, the lead opportunity is the core operational area of R&D and innovation followed by engagement with customers and suppliers. For finance and technology leaders more than sustainability leaders, defining a clear set of priorities, goals, and targets is very important, suggesting a gap in alignment and understanding that needs to be closed.

03

The integration gap: Low collaboration limits progress

Without sufficient capital or alignment among teams, sustainability integration is also likely to suffer. Despite the stated importance of sustainability to commercial success, only 37% of our respondents believe sustainability is "very integrated" into the core of their business. Low integration of sustainability into key functions such as finance and technology means there is less opportunity for those on the sustainability team to understand the commercial opportunities for the business. While these functions are seen as important for making substantive progress on sustainability within businesses (86% for finance and 75% for technology), senior leaders perceive limited collaboration between them and the sustainability function. However, despite the low baseline, most report an increase in collaboration over the past two years (70% with finance and 63% with technology).

04

The data gap: Poor data quality on sustainability performance hinders value creation

Technology can help track and manage sustainability risks, opportunities, and impacts, so long as there's high-quality data to analyze. Of our respondents, 80% say that high-quality data on sustainability performance is "very important" for realizing the full value of sustainability and 15% say it is "fairly important." Yet only 8% say they currently have "very high-quality" data, with another 19% saying they have "high-quality" data. Lack of data makes is harder to test hypotheses about how sustainability is creating value. Given this challenge, nearly two-thirds say they have increased funding in data collection and management solutions for sustainability for the last two years (63%) and plan to do so for the next two (65%).

High-quality sustainability data is essential for meeting the new reporting standards from the International Sustainability Standards Board (ISSB) and EU Corporate Sustainability Reporting Directive (CSRD). These regulations are widely seen as challenging to meet – especially for CSRD, for which three in five (59%) say they will have a "very difficult" or "difficult" time fulfilling, compared with only 31% who expect the same challenges with ISSB.

Executive Summary: Actions Needed to Close Gaps and Drive Value Creation

The implications of this survey are clear. While sustainability, finance, and technology professionals see great potential value in sustainability, only half of them believe this view is shared by their senior management teams, and capital allocation remains low. Reputation is the area where leaders most often see sustainability creating value, leaving an opportunity to better implement sustainability into operations to drive true value. This will require greater integration of sustainability into the core of the business, starting with finance and technology, which are seen as having a critical role to play. Companies will also need to make greater capital investments to inject sustainability into these functions and others, such as R&D and innovation. Companies do not yet have the quality data necessary to meet new (ISSB and CSRD) and existing (GRI) reporting standards, and while they are investing in this area, whether they're investing enough or acting fast enough remains to be seen. However, data gathering alone will not solve all problems. Just as senior "focus" has not been enough to create significant action, this all needs to be hardwired into strategic discussions and capital allocation decisions.

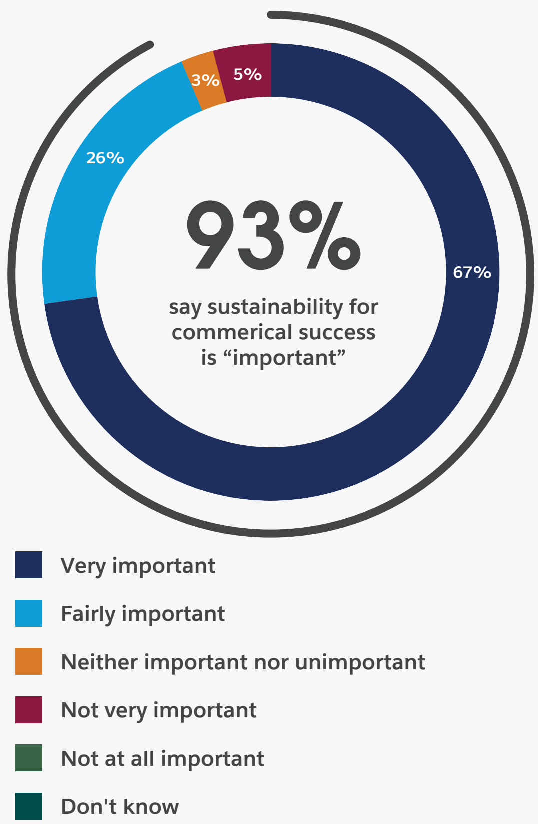
Bottom line: Senior management teams have been slow to provide the proper attention and investment to sustainability operations. There's much room for improvement in the realms of capital, implementation, integration, and data to realize the true value of sustainability in the business. Better data will be needed to meet the impending requirements of ISSB and CSRD, and these standards will help companies better understand and report on the link between sustainability and value creation.

The Capital Gap

Despite high importance, capital is limited

The senior leaders we engaged overwhelmingly see sustainability as a commercial proposition; over 90% say it is “very important” or “fairly important” to commercial success. This is a significant change from the long-run history of business, where costs on people and planet were not factored into pricing; neither were the risks and opportunities these costs create. Corporate values and ethics were often seen as a strictly optional strategy for differentiation.

Perceived Importance of Sustainability for Commercial Success

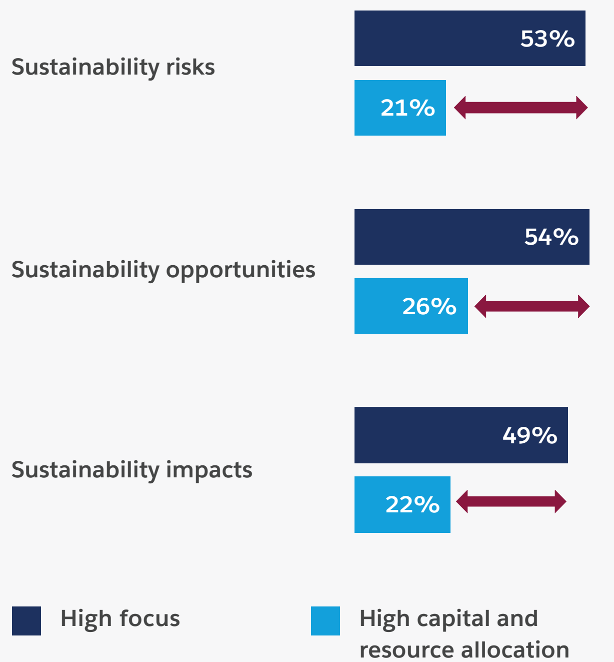


The commercial refocus is increasingly driven across stakeholder groups, including investors, employees, consumers, and civil society. It is also increasingly made legally binding through reporting mechanisms that demand companies measure and report on how sustainability issues impact their bottom line.

This may seem like great progress, but the truth is that not nearly enough is being done to create systemic change within organizations. In addition, we have seen an ESG backlash, which challenges this focus, especially in the US. This, combined with ongoing geopolitical crises, continue to divert attention away from sustainability.

Sustainability advocates are struggling to convince the wider business to act in spite of other pressures. We immediately see a drop-off in senior attention here; only around 50% of senior management teams are putting “high” focus into the sustainability risks, opportunities, and impacts that drive commercial results. This suggests gaps around the business case for investing in sustainability, which we will explore.

Senior Management Team Focus vs Capital and Resource Allocation



The more noticeable and challenging drop-off is the gap between senior focus and capital allocation. Half of all senior teams show a high level of focus, but only a quarter of all senior teams allocate significant capital to deliver on this apparent priority. This is a huge and damning gap, suggesting that it is easy to say yes to sustainability but much harder to act on it. For too long, sustainability advocates have relied on the idea that if leaders are enlightened on the issue and can be persuaded to talk about and focus on it, then progress is inevitable.

Here we face the gap between values and behaviors. Senior leaders and teams may care deeply, intellectually understand the challenges, and feel personally committed. But when this does not match the day-to-day behaviors and systems of running a business, it becomes an area of great talk and focus but receives little action.

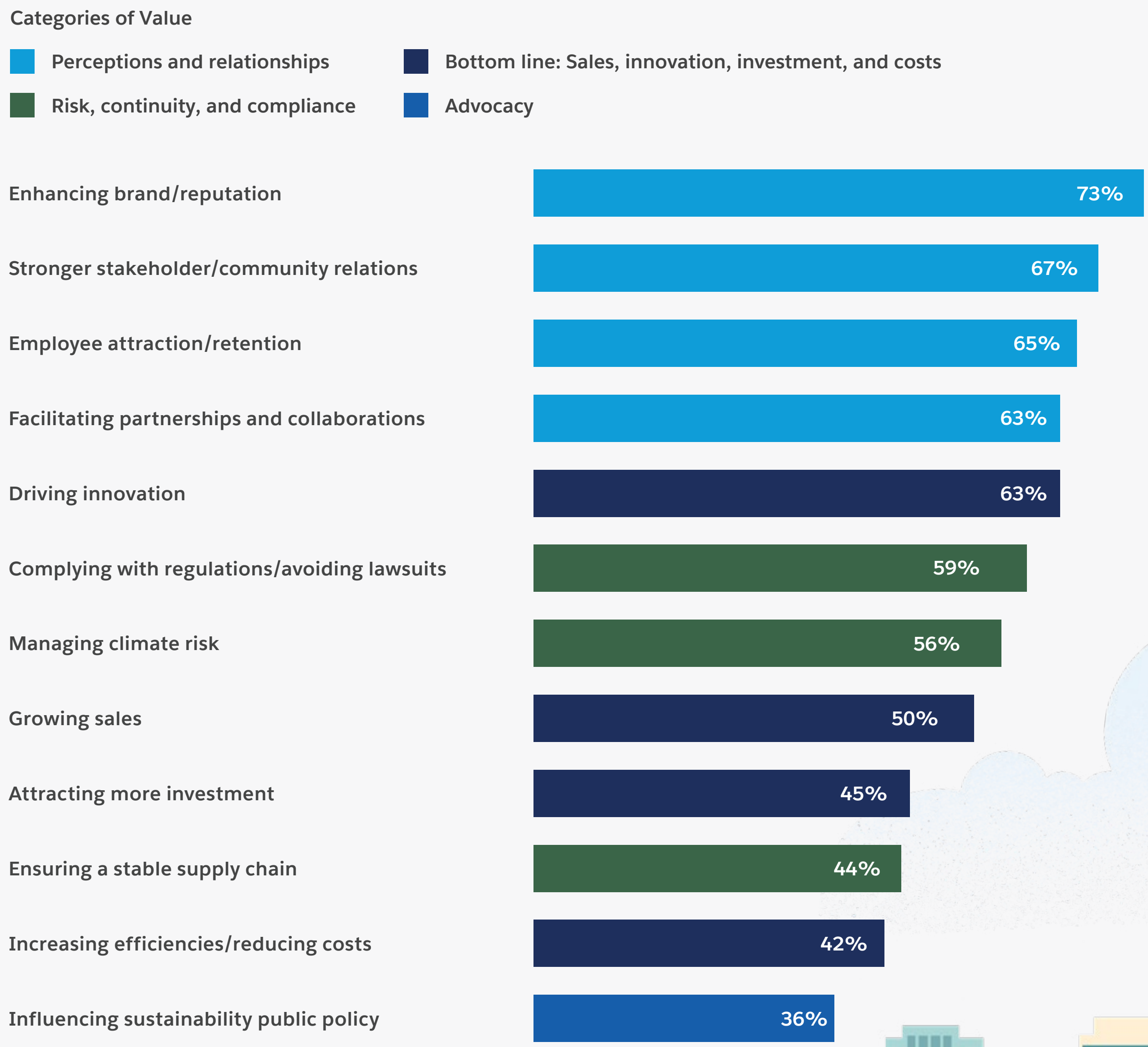
Progress means working harder to understand and close these gaps and dealing with practical aspects beyond winning hearts and minds. Here, we explore three of those practical angles to close gaps and drive impact: the areas where implementing sustainability drives value, the integration needed across teams to recognize and deliver this value, and the data that supports measurement and therefore management.

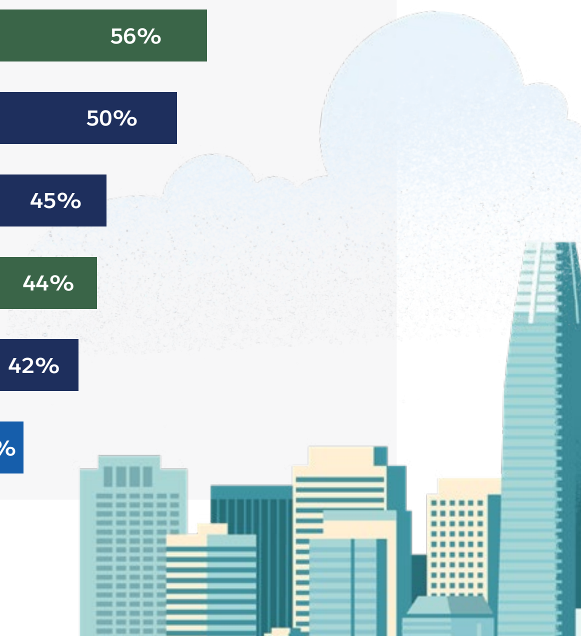
The Implementation Gap

Sustainability is seen as creating value mainly through reputation, not operations

We identified 12 areas where sustainability could add value. The areas that are rated as delivering the most value are around perceptions and relationships such as enhancing the company's brand and reputation, stronger stakeholder and community relationships, attracting or retaining employees, and facilitating partnerships and collaborations. These can deliver great value but can repeat a pattern where sustainability teams are asked to focus mainly on reputational areas. The danger is when better perceptions become seen as an end in themselves, divorced from the core operations and overall direction of the business, areas these teams are not given influence over. This can lead to accusations of limited progress and greenwashing.

Perceived Value of Sustainability Areas, "High Value" / "Very High Value"





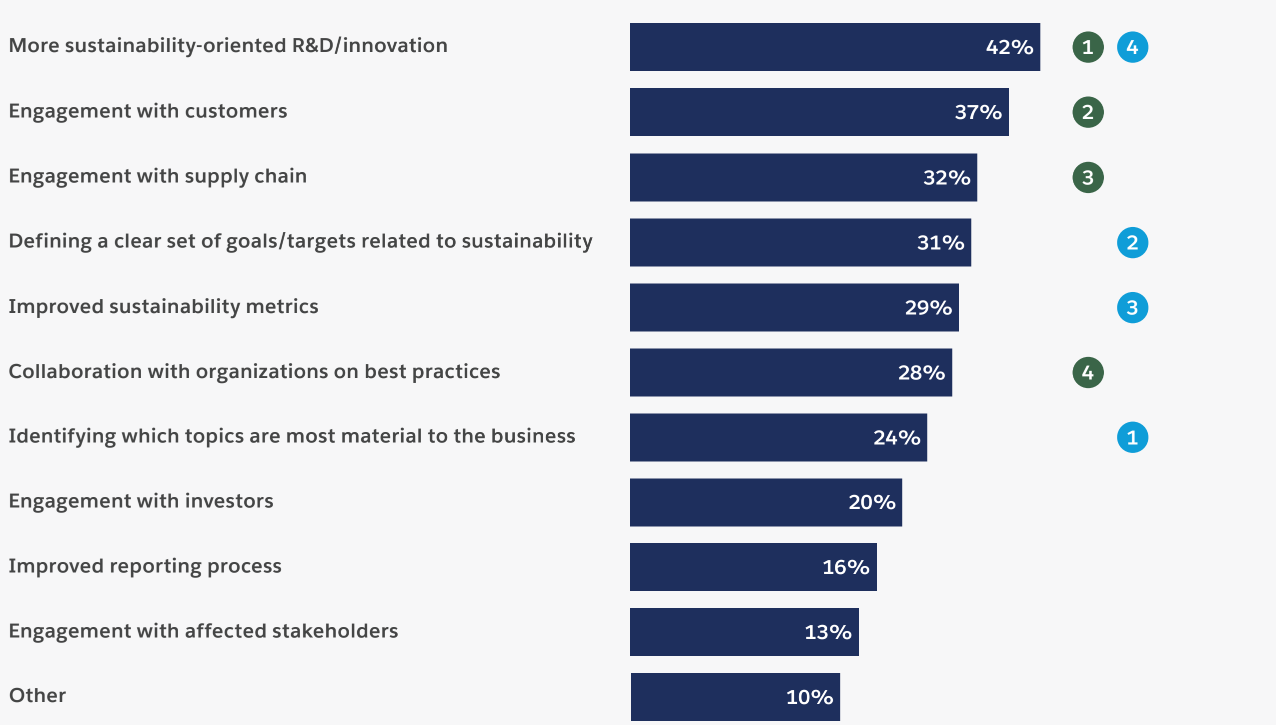
Fewer see value coming from areas directly linked to core operations that often have more direct commercial measures, such as growing sales, attracting more investments, and reducing costs. Likewise, the value of managing risks, from climate change risks, including a disrupted supply chain, to legal risks for non-compliance, is rated lower.

These operational and measurable areas of the bottom line are the areas that senior management teams most often discuss and use to make their capital allocation decisions. So it is not surprising that we see the new nominal support for sustainability not turn into new investment behaviors.

This suggests that leaders will be able to drive impact by better demonstrating how and where sustainability can drive value in the tangible areas senior management teams allocate funds to.

Indeed, when we explored what actions could deliver more value from sustainability, R&D and innovation came first. This is a tangible area that traditionally attracts significant capital and drives change across the organization, from improving efficiencies to increasing sales. It also suggests that driving further value means improving the fundamentals of what a company offers and how it delivers that – not just enhancing existing relationships.

Most Helpful Actions for Unlocking Value from Sustainability (Respondents Chose Their Top 3)



The next top two actions are improving engagement with customers and the supply chain. These focus on relationships, but in particular, relationships with clear commercial stakes. Indeed, many retailers are demanding more specific sustainability standards from brands that want to appear on their shelves and want to continue to appear on their shelves, as Tesco threatened to delist suppliers that fail to match its aim to reduce excessive plastic packaging.

Finance and technology leaders place greater importance than sustainability leaders on defining a clear set of priorities or material topics. This suggests that even where sustainability teams may feel they have a clear prioritization and strategy in place, there is an alignment gap with other functions. This is an opportunity to better involve finance, technology, and other C-suite functions, building alignment, ownership, and accountability across the team. For example, this could mean closer collaboration in strategy and materiality conversations, so all are clear about the links between sustainability actions, the bottom line, and capital allocation.

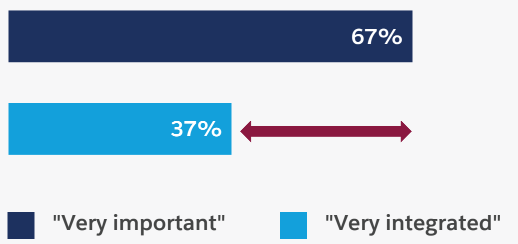
These implementation, capital, and alignment gaps show that sustainability needs to be better integrated into the business.

The Integration Gap

Low collaboration limits progress

The positive news from the study is that the more a business integrates sustainability, the more likely it is to see the value of sustainability, so integration can drive the results needed. However, while 67% of respondents view sustainability as “very important,” only 37% consider it to be “very integrated” into the core of their business.

Sustainability: Perceived Importance vs Level of Integration



This is where financial and technology leaders play a pivotal role: With the right data technology, they can help senior leaders understand what drives impact. Nearly nine in ten leaders see the finance function as important (53% “very important” and 33% “fairly important”) for making progress on sustainability in the business, and three-quarters agree with the same for the tech function (34% “very important” and 41% “fairly important”). However, there is a major gap between the potential and the low current levels of collaboration between sustainability leaders and their counterparts in finance and tech.

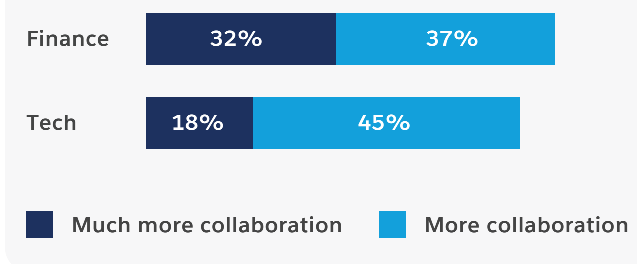
Finance and Technology: Perceived Importance vs Collaboration in Sustainability

The gaps do not stop here. Finance and technology leaders report that there are higher levels of collaboration with sustainability functions than sustainability leaders believe there are. This suggests misaligned expectations on how much collaboration is needed. C-suite leaders also believe there is more collaboration among these three functions than non-C-suite leaders. At best, this could mean that integration is more advanced and driven more strongly at the C-suite level and at worst that integration is not actually as advanced as the C-suite imagines it to be across the enterprise. The challenge for sustainability leaders will be to ensure the needed level of integration to close the gaps and drive action, not just consideration, when finance, technology, and C-suite leaders may assume they have gone far enough already.

The positive sign is that most leaders report an increase in collaboration between sustainability and the finance and technology functions over the past two years, an indication that although there are several gaps to fill, leaders are joining forces to integrate sustainability, albeit at different paces.

Greater mutual understanding, clarity, and alignment are needed to accelerate sustainability integration. There is no silver bullet to solve these issues. However, better data and the ability to measure impacts and progress can help align teams.

Change in Level of Collaboration Over Last Two Years

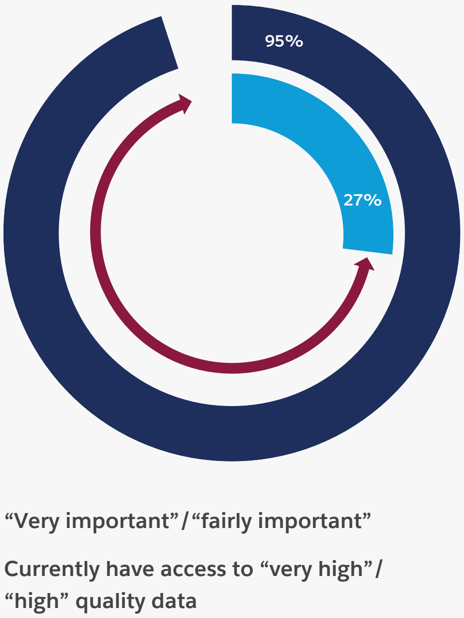


The Data Gap

Limited access to the quality data needed for effective management

Ninety-five percent of leaders consider access to high-quality data on sustainability performance to be important for unlocking the full value of sustainability (80% believe it is “very important” and 15% “fairly important”). However, access to high-quality data is a challenge, and fewer than three in ten (27%) say they currently have high-quality sustainability data at their disposal. Our findings also show that those with better access to high-quality data are more likely to value sustainability than those who have limited access.

Perceived Importance of “High Quality” Sustainability Data vs Perceived Quality of Current Sustainability Data



To help bridge this gap, around two-thirds of leaders report that they have increased funding over the past two years for data collection and management solutions and expect to increase it further for the next two years (63% and 65%, respectively).

The drive for data is accelerated by the increasing regulatory and reporting pressures from sources such as the ISSB and CSRD. At least two-thirds say they “know a lot” or a “fair amount” about these reporting standards (68% and 67%, respectively), while nearly eight in ten (78%) say the same for the Global Reporting Initiative (GRI). However, this well-informed group is more likely to view compliance with each standard or reporting requirement as being more difficult than easy, with CSRD identified as being most challenging, and nearly six in ten (59%) believe it will be “difficult” or “very difficult” compared with 31% saying the same for ISSB and 26% for GRI.

High-quality data is important to support this. However, sustainability data should not be collected and managed simply for the sake of compliance and reporting. Neither collecting the data nor reporting on it guarantee that sustainability will drive value. Data collection without action perpetuates a false impression that senior teams are focusing on sustainability when they aren’t. Instead, teams need sufficient resources and upskilling on how to feed sustainability data into the overall business strategy and integrate into all parts of management so it drives capital allocation decisions.

In Summary

At a time of great need and limited action, there is an opportunity to move faster by closing four main gaps:

01

Capital Gap:

It's not enough for senior management to list sustainability as a focus area. Allocate sufficient capital to sustainability initiatives, and hold teams accountable for the action they take with it.

02

Implementation Gap:

Make a stronger case for the impact sustainability has on the core operational and commercial focus areas of innovation, costs, and sales, not just relationships; align with the measurable areas that guide capital allocation.

03

Integration Gap:

Deliver a stronger case and build buy-in by better integrating key functions, especially finance and technology, which have the expertise and tools to help measure and manage in line with senior management team expectations.

04

Data Gap:

Harness better data to build out the business case and meet growing compliance demands while ensuring the data is used as a tool for guiding, challenging, and validating strategic decisions, not just reporting and compliance.

Methodology

The survey was managed by GlobeScan and conducted between the 7th of November and 19th of December 2023. A total of 234 senior professionals, mostly working in finance, technology, and sustainability functions, participated in the survey. The survey was distributed through a variety of channels including direct emailing, newsletters, and LinkedIn to reach the target audience. Below are key characteristics of the sample.

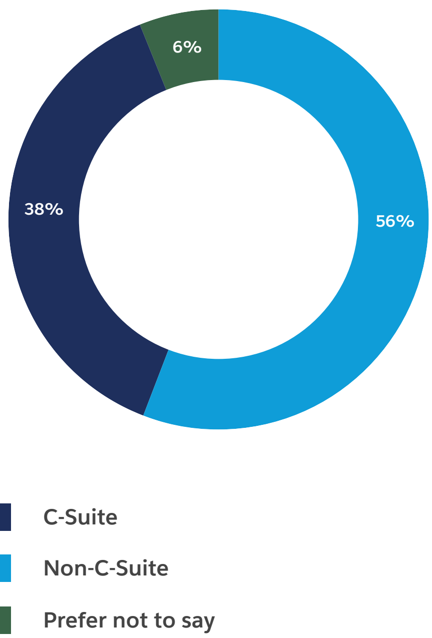
Sample Distribution by Function

Sustainability *n*=160

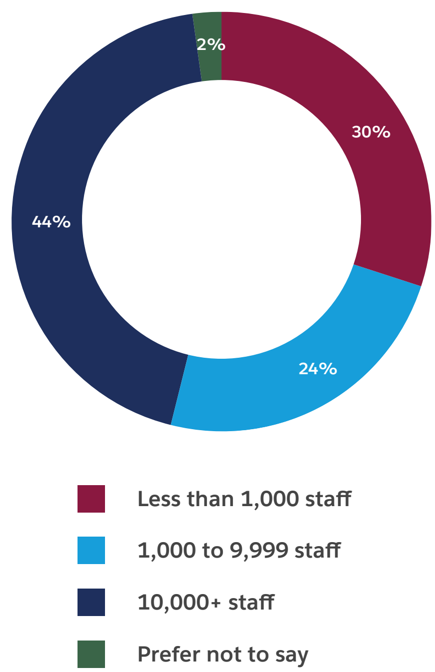
Finance *n*=21

Tech *n*=13

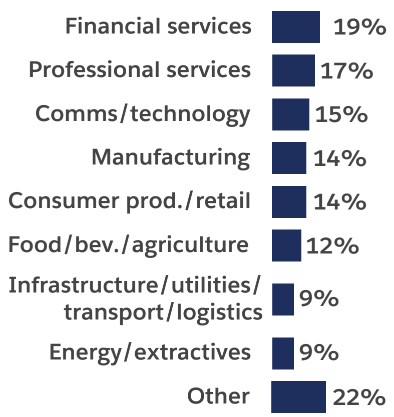
Sample Distribution by Seniority



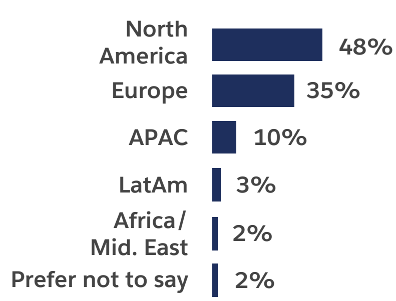
Sample Sistribution by Company Size



Sample Distribution by Sector



Sample Distribution by Region



Acknowledgments of Partners

Alison Taylor

Alison Taylor is a Clinical Associate Professor at NYU Stern School of Business, and the Executive Director at Ethical Systems. Her previous work experience includes being a Managing Director at non-profit business network BSR and a Senior Managing Director at Control Risks. She holds advisory roles at VentureESG, sustainability non-profit BSR, Pictet Group, and KKR, and is a member of the World Economic Forum Global Future Council on Good Governance. She has expertise in strategy, sustainability, political and social risk, culture and behavior, human rights, ethics and compliance, stakeholder engagement, anti-corruption, and professional responsibility. Her book *Higher Ground: How Business Can Do the Right Thing in a Turbulent World* will be published by Harvard Business Review Press in February 2024. Alison received her Bachelor of Arts in Modern History from Balliol College, Oxford University, her MA in International Relations from the University of Chicago, and MA in Organizational Psychology from Columbia University.

Robert G. Eccles

Robert G. Eccles is a leading authority on ESG, sustainability, and sustainable investing in both the corporate and investment communities. These have become the basis of a major politicized culture war in the United States. To address that, Eccles has been engaged in a “GOP Outreach Campaign” focused on finding common ground across the moderate part of the political spectrum. Climate change is a particular focus of this campaign. Currently Eccles is a Visiting Professor of Management Practice at the Saïd Business School, University of Oxford. Eccles has been a Visiting Lecturer at the Massachusetts Institute of Technology, Sloan School of Management and was a Berkeley Social Impact Fellow at the Haas School of Business, University of California, Berkeley. He was a Professor at Harvard Business School and received tenure in 1989. Eccles is the first Chair of KKR’s *Sustainability Expert Advisory Council*, the Co-Chair of Novata’s *ESG Advisory Council*, a member of Persefoni’s *Sustainability Advisory Board*, and Chair of the Unscripted Cast Advocacy Network (UCAN). He has bachelor degrees in mathematics and humanities from the Massachusetts Institute of Technology and master and Ph.D. degrees in sociology from Harvard University.

About GlobeScan

GlobeScan is a global insights and strategy consultancy helping companies, NGOs, and governmental organizations know their world and create strategies to lead a sustainable and equitable future. Established in 1987, GlobeScan is a Certified B Corp with offices in Cape Town, Hong Kong, Hyderabad, London, Paris, San Francisco, Singapore, São Paulo, and Toronto. For information, please visit: globescan.com

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If you wish to contact the authors or discuss anything you have read in this report, we would love to hear from you:

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