

MARCH 2021

Leading your organization towards a sustainable future

By Claudia Pardo, Ned Calder, Kristen Colella,
and Kelsey Beuning



Claudia Pardo is a Partner at Innosight, where she leads the firm's European practice.

Ned Calder is a Partner in Innosight's Boston office and leader of the Industrial & Technology Solutions practice.

Kristen Colella is a Partner at Innosight and co-leader of the Consumer, Media, and Technology practice.

Kelsey Beuning is an Analyst in Innosight's European practice.

Sustainability has become a top business priority of the 21st century.

Customers, consumers, and investors are now demanding businesses to consider the environmental and social impact of their products, services, and operations.¹ Governments are following suit, with a 20-fold increase in global environmental regulations over the past two decades.² Simultaneously, new technologies and business models are gradually enabling businesses to address the ecosystem shift towards sustainability. For example, solar energy now costs the same or even less than other sources of energy³ and sharing economy business models are projected to grow at double-digit rates in the next decade.⁴ All these external forces are reshaping the role of business in society and the question is no longer whether sustainability is important for businesses, but how it will be realized.

While responding to the COVID-19 pandemic has taken center-stage over the past year, this has not dissuaded companies and their leaders from focusing on sustainability. In fact, over 75% of business leaders feel that sustainability is just as or even more important now than it was pre-COVID.⁵ In par-

Environmental Focus

Sustainability has environmental, social, and economic elements. While all these aspects are important, for the purposes of this article, we focus on the environmental aspects of sustainability.

allel, the global push toward solving the pandemic has demonstrated the power of collective action to address large-scale challenges, a promising model for change.

Businesses are responding by integrating sustainability into their business strategy and operations. Those that do this well are being rewarded, as seen in the outperformance of ESG-based funds and indices of companies classified as “sustainable” in terms of both TSR –approximately 80% higher returns on average - and longevity.⁶

However, while many businesses have embraced sustainability as a priority, they often face operational challenges in driving long-term sustainable growth. These challenges are often more prominent in companies that have traditionally viewed sustainability through a compliance lens and less present in companies that identified it as a driver for top-line growth. Compliance-minded companies have focused on updating current practices to regulations and reducing risk, essentially playing a game of catch-up. Even when the aspiration changes, this compliance mindset often persists.

We believe that organizations are more successful when they are able to integrate and leverage a future-focused approach and set a clear vision of the company they want to be in the future. This also necessitates implementing an operating model that integrates sustainability throughout the organization rather than as isolated initiatives that will not gain traction. In doing so, companies can proactively harness sustainability as a driver for new growth and innovation. Through our work advising leading companies and conducting leadership summits on sustainability, we surfaced top considerations for senior leaders as they position sustainability to unlock growth and value creation.

1. How Embedded Are Your Sustainability Goals With the Corporate Strategy?

When organizations set sustainable goals as part of a stand-alone initiative that is isolated from or not clearly connected to their corporate strategy, it can create misalignment among senior leadership around the potential for future value creation.

Another factor that compounds this disconnect is a "present-forward" mind-set, where companies center on a more compliance-based approach by extending or adapting the current business. In contrast, adopting a "future-back" approach enables companies to account for uncertainty and can help elevate the strategic role of sustainability.

Senior leadership strategic dialogues center on surfacing these differing perspectives and redirecting the discussion to define a shared view of the world for the future. This strategic alignment on and integration of sustainability as part of the corporate priorities is a critical enabler for a future-back approach. It ensures that the leadership team has developed a common vision of what sustainability means and how the external forces driving it will impact their organization. This evolves the role of sustainability from a compliance constraint to a strategic growth driver.

As part of this effort, it is important to assess the impact to the full ecosystem and weigh potential trade-offs of a sustainable business initiative. For example, creating technologies such as solar panels that reduce emissions should, within their own production, ensure they are not leaving a larger carbon footprint than the product ultimately is able to reduce in its lifecycle. Ensuring strategic alignment around "what we believe to be true about the future" including the ecosystem impact and trade-offs is critical for developing any strategy – for sustainability as well as for the larger business.

Danish energy company Ørsted, for example, aligned their senior team on the vision that renewable energy would be the power of the future. Yet, in 2010, 85% of Ørsted's revenues stemmed from fossil fuels. Recognizing this disconnect, the firm was able to successfully integrate a vision of "sustainable green power" as the driver of their strategic transformation. As Thomas Brostrøm, former Chief Executive Officer of Ørsted North America Offshore, told Innosight: "The biggest takeaway is that you have to be a little bold when you make these kinds of decisions and you need to set a clear vision, which we did. We basically said we believe in a world that runs entirely on green energy. We believe this is the way the world is going. So, we better get started early on." (Read the full interview in the [Innosight Transformation 20](#)).



VIDEO: Watch Ørsted's Thomas Brostrøm on the move to offshore wind.

Ørsted clearly defined the sustainable impact they wanted to have in transitioning to green energy. They also had a clear definition of the future value they wanted to create in terms of business growth. This aligned view enabled the company to integrate sustainability into the core of their transformation towards an innovative new business model around wind energy.

To date, this integration of sustainability into corporate strategy has been a success. 90% of Ørsted's generated energy now originates from green heating and power sources. At the same time, costs have been reduced by 60% as this green energy business model has achieved volume and scale.

To assess your progress against this integration of sustainability with strategy, we examine three key dimensions:

- Do you have a common language to describe sustainability throughout the organization? Do all members of your management team have the same understanding?
- Is your leadership team aligned on the impact of sustainability and its potential for future value creation?
- Are members of your executive leadership team responsible for sustainability and its integration into corporate strategy development and decision-making?

2. To What Extent Are Your Customers' Underlying Motivations Integrated in Designing for Sustainability?

Sustainable products and services sometimes entail higher costs to produce, which translate to higher prices for customers. Organically grown food or sustainable branded clothing, for example, often carry a “sustainability premium” over more traditional products. While customers willing to pay a premium can be a profitable niche, this is not the only target market for sustainable offerings. By examining the diverse motivations of customers on a broader scale, and in particular spotting areas of non-consumption due to barriers like access or affordability, companies can begin to identify new growth opportunities. In addition, a focus on these underlying motivations can also provide insight into new innovation levers, such as new business models, which better address customer needs.

Jobs-to-be-done provides a valuable lens to understand the underlying functional, emotional, or social reasons a customer “hires” a product or service. Focusing on these deeper motivational drivers for customers can illuminate new opportunities for sustainable offerings. For many mass-market cus-

tomers, the primary decision factor will be that the product or service fulfills their functional needs, and they may not compromise on quality or price for sustainability.

For example, while some customers choose an energy provider that uses renewable energy sources to satisfy their emotional job of “help me save the planet”, many more may choose this option mostly because it gets their functional job done – “help me reduce my home energy costs”. The dramatic reduction on solar and wind energy over the last decade demonstrates the opportunity for sustainability when it moves beyond a premium price point and considers alternative delivery models. Identifying and appealing to these motivations to add additional value and address sustainability concerns at the same time can help create innovative products and

Understanding Jobs to be Done

When customers buy a product or service, they are essentially “hiring” this product or service to do a “job” for them. This logic of “jobs to be done” seeks to understand the progress a customer is trying to make in a given circumstance. These three elements – progress, customer, and circumstance – face barriers to consumption, including wealth, skills, and access. Understanding jobs can help companies surface the underlying motivations behind their customers’ behavior.

services, and spot opportunities for new business models.

Coca-Cola's DASANI, for example, adjusted their sustainable product development to consider customers' underlying motivations. In response to universities' drive to eliminate non-reusable water bottles on campus to fulfill the job of "Help our campus reduce waste," Coca-Cola created the environmentally friendly – and convenient – PureFill water vending station, leveraging a very different business model. Customers can take an empty bottle to the station and fill it up with DASANI for free or add flavors and carbonation for a small fee. In this way, the service did not command a price premium on buying bottled water and also fulfilled the students' job: "Help me access drinks conveniently." This project was piloted at the Georgia Tech campus, and after success with their first machine, has since expanded to universities, hospitals, and schools around the U.S.



Another example is the emerging grocery home delivery services for vegetables such as Misfits Market, Imperfect Food, or Ugly Fruits. Some customers are attracted to the sustainable value proposition of organic and local produce, which addresses emotional and social motivations around feeling healthy and buying locally grown food. For others, however, the convenience of home delivery, variety of food options, all at supermarket-comparable prices are the selling points. These satisfy their functional

need of getting food for the week in an affordable and convenient way.

To assess your progress against customer-focused sustainable product and service design, we examine four key dimensions:

- Does your offering design focus on sustainability-specific price premiums, or on broader, unique solutions to broader customers' needs?
- Do you understand the functional, social and emotional jobs that your customers are looking to fulfill?
- Do you leverage new business models beyond your traditional?
- Do you have a sequential go-to-market plan to learn about and adapt to your customers and new markets?

3. Is Your Current Organization Set Up to Enable Your Long-term Sustainability Goals?

Many sustainability functions within large organizations are tasked with achieving long-term goals and targets. All too often these functions operate in isolation, lacking sufficient connection with the main business. That means that they regularly are competing against short-term, pressing business issues, resulting in a lack of adequate resources to make progress against sustainability goals. In our experience advising organizations on sustainable innovations, we found that these initiatives are often evaluated via mechanisms such as annual reviews and compared against traditional business initiatives, with the same KPIs. However, these nascent sustainable initiatives will often underperform on some dimensions such as profitability or revenues, which biases towards established – and often less sustainable – businesses, resulting in a lack of resource allocation toward sustainable initiatives.

Managing such initiatives also require a governance model that ensures a balance between short-term performance and long-term realization of value and impact. We therefore recommend that sustainable initiatives should be managed “at arm’s length,” using tailored processes and evaluation criteria. We also establish VC-like governance structures to enable sustainability teams to work at the pace of startups.

Unilever, for instance, established a Sustainable Living Plan in 2014, outlining an operating model for how sustainability is integrated throughout the organization. This plan included high-level targets and processes for the development of new sustainable brands and products. It also decentralized specific new product development across the organization to ensure initiatives are adapted to local contexts. To hold business leaders accountable, performance measurement and executive compensation are tied to achieving these sustainability targets. This helps position sustainability as a long-term growth driver, as former CEO Paul Polman said: “Most businesses operate by saying: ‘How can I use society and the environment to be successful?’ We are saying the opposite: ‘How can we contribute to the society and the environment to be successful?’”⁷ The long-term value of this Sustainable Living Plan has been realized in the case of Unilever – sustainable brands and products have grown significantly faster than traditional brands - up 70+% year over year from 2018 - and now make up 7% of the total product portfolio.⁸

To assess your progress against these organizational governance questions, we examine three key dimensions:

- Are there specific metrics and KPIs for sustainability that your organization is working against?
- Do you have a structured review process for sustainable growth initiatives which consider long-term sustainable impact as well as short-term performance?

- Do you have dedicated resources as well as a VC-like governance structure to manage sustainable initiatives?

4. How Present is a Culture and Mindset of Sustainability Throughout Your Organization?

Sustainability departments within global organizations serve a valuable role in driving the company’s agenda. However, it is not enough to leave the entire accountability to one department. When companies cultivate a sustainability mindset throughout their organization, demonstrating how the aspirations are connected to employees’ work, they are better positioned to achieve large scale-goals and engage one of their greatest resources – their people.

Enabling a sustainability mindset requires that all employees see sustainability not as a constraint, but a creative enabler – and that this is reinforced by specific habit-building activities and interventions. This cultural change requires granular definition of specific behaviors of top leadership and employees at all levels that enable – or block – success. For example, leaders might see sustainability as “nice but not necessary” and dismiss sustainable innovation ideas as incompatible with core business metrics.



A concrete behavioral tactic to address this could be to add sustainability as a consideration within business case templates, so that all new ideas are evaluated through a sustainability as well as a tradi-

tional commercial lens. Encouraging this creativity in solution development and cultivating engagement among both leaders and employees yields a dual benefit. On one hand, engaging all employees can ensure the grassroots development of sustainable innovations. On the other, linking day-to-day work with a broader organizational and societal purpose is increasingly important for employees' motivation and retention.



For example, global software firm SAP created a culture of sustainability throughout the organization. At SAP, all sustainability initiatives are sponsored by top leaders. Former CEO Bill McDermott, for example, personally championed a transition from 43% renewable energy in 2013 to 100% renewable energy in data centers and operations in 2014.⁹ At the same time, individual employees are encouraged to bring forward innovative ideas integrated into products and services. For example, the company hosts green coding workshops, where development staff are taught about sustainability metrics and encouraged to integrate what they learn into traditional enterprise software design and development process.

This integration has concrete impacts both for top-line revenue and profitability. SAP's move into sustainability management software has driven top line growth – over 1,700 customers now use SAP sustainable software products, and the company serves 97% of the world's most sustainable companies.¹⁰ In addition, SAP's Business Health Culture

(BHCI) surveys show that 83% of employees feel that their job has “actively contributed to achieving sustainability goals”. SAP's integrated reporting, which examines the connectivity between sustainability efforts and financial performance, concludes that each percentage point change on the BHCI, positive or negative, results in an impact of €90-100 million on SAP's operating profit.¹¹

To assess progress against the development of a sustainable culture, we examine three key dimensions:

- Do leaders in your organization model and encourage sustainability as a growth driver?
- Is there a shared mindset that sustainability is important throughout the organization?
- Are there behavioral enablers that help employees and leaders feel empowered to integrate sustainable thinking into their day-to-day?

Sustainable business is imperative, but companies that view it through a compliance mindset only may be overlooking opportunities for innovation and new revenue sources. In order to leverage sustainability for growth, business leaders should examine how they connect their corporate strategy and sustainability, the way they integrate their customers' motivations, the design of organizational enabling structures and processes, and the capabilities and mindset lived across the company. Getting these right can ensure you are positioned to lead a sustainable and future-fit organization.

ABOUT THE AUTHORS

Claudia Pardo is a Partner at Innosight, where she leads the firm's European practice. cpardo@innosight.com

Ned Calder is a Partner in Innosight's Boston office and leader of the Industrial & Technology Solutions practice. ncalder@innosight.com

Kristen Colella is a Partner at Innosight and co-leader of the Consumer, Media, and Technology practice. kcolella@innosight.com

Kelsey Beuning is an Analyst in Innosight's European practice. kbeuning@innosight.com

The authors thank **Thiemo Werner** and **Dani Cinali** for their contributions to this briefing.

ABOUT INNOSIGHT

Innosight is a strategy and innovation consulting firm that helps organizations navigate disruptive change and manage strategic transformation. Now a member of the Huron Consulting Group, we work with leaders to create new growth strategies, accelerate critical innovation initiatives, and build innovation capabilities. Discover how we can help your organization navigate disruption at www.innosight.com.

ENDNOTES

1. Global Consumer Pulse
2. CarbonBrief
3. IRENA
4. Brookings
5. BSR
6. Financial Times, Eccles et. al.
7. Future Forum
8. Unilever 2019 Annual Report
9. SAP Press Release
10. SAP Factsheet
11. SAP 2019 Integrated Report

CONTACT US