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# Getting the most out of your sustainability program

Sustainability initiatives won't create lasting value if they're poorly managed. Here are four lessons from companies that are doing it right.

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Among retailers and consumer-goods manufacturers, commitment to environmental and social objectives can take many forms—whether it's distributing fair-trade products, reducing materials used in packaging, or ensuring humane working conditions at suppliers' factories. Unilever, for one, has a detailed Sustainable Living Plan, and among the company's goals for 2020 is to halve the greenhouse-gas impact of its products over their life cycles. Swedish furniture maker IKEA has installed more than 700,000 solar panels in its buildings worldwide and has committed to own and operate more than 300 wind turbines. British retail group Kingfisher's sustainability plan, which it calls Net Positive, aims not only to make frugal use of natural resources but also to restore and regenerate the environment—"putting back more than we take out," as the company says.

These programs can be powerful agents of change, both toward greater alignment between customer

and corporate interests and toward a culture of systemwide innovation in products and business models. Yet some skepticism remains as to whether sustainability efforts have any impact on financial performance in the short and medium term. Our recent research provides answers to both of these questions.<sup>1</sup> In this article, we discuss how companies are creating value from their sustainability programs and what practices enable companies to keep these programs running smoothly and effectively.

## How sustainability programs create value

In previous work, our colleagues have outlined the various ways that companies can use sustainability initiatives to manage risk, drive growth, or improve returns on capital (Exhibit 1).<sup>2</sup> In our latest research, we sought to unearth examples of how companies are actually doing it. We found that companies that built sustainability into their operations saw immediate benefits, which gave them the momentum to do even more.

**Exhibit 1 Companies are pursuing sustainability in a way that creates value.**



Source: Sheila Bonini and Stephan Görner, "The business of sustainability: McKinsey Global Survey results," Oct 2011, mckinsey.com

**Risk management**

Of the companies we surveyed,<sup>3</sup> more than 90 percent could point to a specific event or risk—such as consumer pressure or soaring commodity prices—that directly triggered their commitment to sustainability. More than half cited long-term risks to their businesses: 26 percent said they wanted to avoid damage to their reputations, 15 percent were seeking to prevent regulatory problems, and 15 percent said they wanted to eliminate unnecessary operational risks. Indeed, we found that the value at stake from risk-related sustainability issues can be as high as 70 percent of earnings before interest, taxes, depreciation, and amortization (Exhibit 2).

What do these risk-management efforts look like in practice? The US-based candy companies Mars and Hershey offer two examples. To secure their future supply of cocoa, both companies are investing in the sustainability of their suppliers. Mars supports smallholder cocoa farmers in Côte d'Ivoire by providing high-quality seeds and fertilizers as well as training; it is also investing in research to improve the quality and performance of cocoa plants. Hershey sends experts to teach its suppliers best-practice farming methods; its CocoaLink mobile-phone service offers advice and market information. The company also contributes to local education initiatives and the fight against child labor. Both companies have set a goal of having their entire cocoa supply sustainably sourced by 2020.

Exhibit 2

**Our research shows that the value at stake from sustainability challenges is substantial.**

Challenge	Examples	Potential impact, % of EBITDA <sup>1</sup>
<b>Regulation/reputation</b>	Restricted license to operate Reputational damage based on perceived misuse of resources	70
<b>Rising operating costs</b>	Raw-material costs driven up by supply/demand True cost of water or carbon reflected in prices	60
<b>Supply-chain disruption</b>	Production delay or cancellation due to lack of access Especially significant for local resources—water, power	25

<sup>1</sup>Earnings before interest, taxes, depreciation, and amortization.

**Growth**

Nearly half the companies we surveyed (44 percent) cited business and growth opportunities as the impetus for starting their sustainability programs. Redesigning products to make them more sustainable, for instance, can yield tremendous financial benefits. Unilever developed a brand of dishwashing liquid, Sunlight, that is equally effective but uses much less water than other brands; sales of Sunlight and Unilever’s other water-saving products are outpacing category growth by more than 20 percent in certain water-scarce markets.

Apparel companies such as Europe’s C&A now use organic cotton, which is grown without synthetic chemicals or genetically modified seeds. Consumer demand for organic cotton is rising: in 2014, C&A sold 130 million garments made from the fabric, up from 85 million in 2012. C&A plans to use organic cotton in 100 percent of its cotton products by 2020.

**Returns on capital**

Most of the companies we surveyed said their sustainability initiatives began with a focus on

reducing resource consumption: 97 percent of them are conducting initiatives to increase energy efficiency, 91 percent to reduce waste, and 85 percent to save water in day-to-day operations.

Puma, the sporting-goods manufacturer, has been measuring its ecological footprint and that of its largest suppliers since 2005. It aims to reduce the waste it generates, as well as its water and energy consumption and carbon dioxide emissions, by 25 percent compared with 2010. The company is making steady progress: between 2010 and 2013, Puma reduced waste generated per employee by 35 percent and cut energy consumption by 4.2 percent.

**Bringing discipline to sustainability programs**

Even with a sustainability agenda in place, companies often encounter problems with execution. To bring more discipline to their sustainability efforts, companies would do well to follow four principles commonly associated with performance management: select a few focus areas, set measurable goals, conduct cost-benefit analyses, and create incentives for employees and suppliers.

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#### Focus, focus, focus

We found that many companies choose more than 10 areas in which to concentrate their sustainability efforts; some choose more than 30. It's hard to imagine how a sustainability agenda with such a large number of focus areas can get the necessary buy-in and resources to be successful. In our experience, the best approach for maximizing impact is to select three, or at most five, strategic priorities.

For example, Coca-Cola's sustainability framework—which it calls Me, We, World—encompasses its initiatives to improve personal health and wellness, the communities in which it operates, and the environment. The company reports making material, tangible progress on metrics related to three specific areas of focus within this framework: well-being, women, and water.

To emulate Coca-Cola's success in identifying focus areas that are a good fit with corporate strategy, a company should study what matters most along its entire value chain through internal analysis and dialogue with suppliers, customers, regulators, and nongovernmental organizations. The end product of these efforts shouldn't be a mere laundry list of vague ideas but rather a systematic sustainability agenda.

#### Set measurable goals

For each focus area, a company then needs to set clear, quantifiable goals with a long-term orientation (five years or more) and communicate those goals both internally and externally. Notice the difference between a general aspiration to “reduce the impact of our packaging on the environment” and a specific, measurable goal to “eliminate 20 million pounds of packaging by 2016.” Another example of a specific goal comes from a coalition of apparel retailers and

manufacturers including Benetton, H&M, Inditex, and Marks and Spencer: these companies are aiming for supply networks with zero discharge of hazardous chemicals by 2020.

Publicizing quantifiable goals motivates the organization, forces leaders to allocate resources, and promotes accountability. An analysis of companies that are part of the Carbon Disclosure Project found that those that announced their goals to the public did better when it came to cutting emissions—and also had better financial returns on such investments.

#### [Conduct cost-benefit analyses and communicate the results](#)

Making the business case for sustainability might sound like an obvious thing to do, but apparently it isn't. Only around a fifth of survey respondents reported that the financial benefits are clearly understood across the organization.

Many companies have struggled to quantify the financial impact of their social and environmental initiatives, in part because of the distributed nature of that impact: savings or profits arising from sustainability initiatives are commonly spread across various parts of an organization. It is therefore advisable to appoint an executive as

the “owner” of each target, meaning his or her team continually tracks the costs and benefits of sustainability actions. Tracking should also extend to indirect effects, such as an enhanced corporate reputation and increased customer loyalty, which pay off over the longer term.

Marks and Spencer tracks progress against its sustainability commitments, as laid out in the company's Plan A program. The commitments generated £145 million in net benefits in 2013–14. These benefits are regularly communicated to shareholders, employees, and consumers; for instance, the company's latest annual report mentions Plan A more than 70 times.

#### [Create incentives for employees and suppliers](#)

The top reason that survey respondents gave for their companies' failure to capture the full value of sustainability was the lack of incentives to do so. Only 1 company in 12 includes sustainability criteria in calculating performance-based compensation for executives, and only 1 in 7 rewards suppliers for good sustainability performance. Among survey respondents, 37 percent named short-term earnings pressure as a reason for poor sustainability results; about a third named lack of key performance indicators and not enough people being held accountable.



Companies could learn a lesson from sporting-goods maker Nike, which directs more of its business to suppliers that receive high scores on its Sourcing and Manufacturing Sustainability Index. This index, one of Nike's tools for assessing factory performance, gives sustainability factors equal weight with quality, cost, and on-time delivery. Nike requires lower-performing factories to resolve issues in a timely manner or else face penalties such as reduced orders or even a termination of the business relationship. The incentives seem to be working: between 2011 and 2013, Nike saw a 19-percentage-point improvement in the number of suppliers that met its standards.



Ultimately, each company must define its own sustainability philosophy in the context of its specific business and mission. The examples described here illustrate the competitive advantages that sustainability initiatives can offer. That said, even the most exemplary commitment to sustainability doesn't change the fact that the earth's natural resources are limited. A longer-term solution will therefore require new—circular and regenerative—business models that decouple economic growth from resource consumption. ■

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<sup>1</sup> For more on the research findings and methodology, see Sheila Bonini and Steven Swartz, "Profits with purpose: How organizing for sustainability can benefit the bottom line," *McKinsey on Sustainability & Resource Productivity*, July 2014, mckinsey.com.

<sup>2</sup> Sheila Bonini and Stephan Görner, "The business of sustainability: McKinsey Global Survey results," October 2011, mckinsey.com.

<sup>3</sup> McKinsey conducted a sustainability-assessment survey with 340 respondents from almost 40 companies, exploring why and how companies are addressing sustainability and to what extent executives believe it can and will affect their companies' bottom line.

This article is adapted from "Profits with purpose: How organizing for sustainability can benefit the bottom line," which first appeared in the 2014 issue of *McKinsey on Sustainability & Resource Productivity*.

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