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How to Set Strategic Ambition for Sustainability

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CEOs now identify environmental sustainability as a top business priority. Executive leaders should set a realistic and practical level of strategic ambition for sustainability, while remaining focused on business outcomes.

Overview

Key Findings

- Strategic ambition for sustainability includes compliance, optimization and transformation.
- No single strategic ambition is better or right. Each ambition supports important business outcomes.

Recommendations

- Set strategic ambition based on the business outcomes required, such as those regarding risk, reputation and returns.
- Advance strategic ambition by monitoring change triggers, like stakeholder pressure or reduced access to capital, are present.

Introduction

Staying a step ahead of sustainable business change is the right reaction for some CEOs, especially in physical businesses with supply chains. But most will focus on taking "just enough" action to reduce risks and costs. Executives should set strategic ambition for sustainable business, watch for triggers and (if needed) advance strategic ambition (see Figure 1 and Figure 2). We also include a list of do's and don'ts at the end of this research.

Figure 1: How to Set Strategic Ambition for Sustainable Business

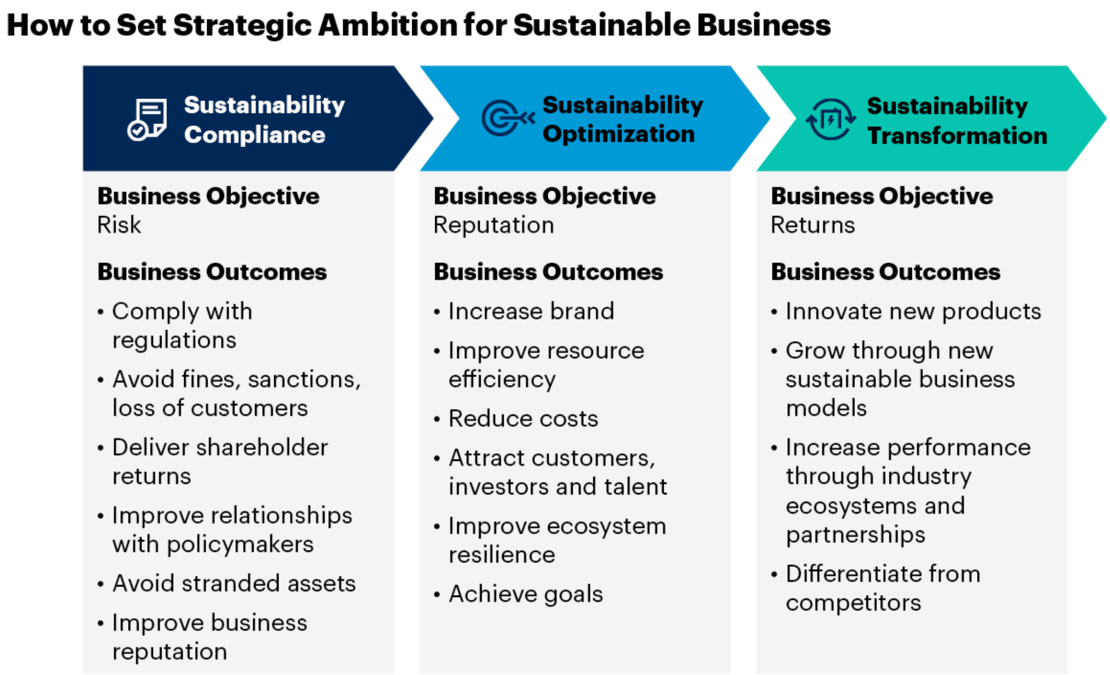

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Figure 2: Executive Actions to Set Strategic Ambition for Sustainable Business

Executive Actions to Set Strategic Ambition for Sustainable Business

From Compliance to Optimization	From Optimization to Transformation
Triggers to Advance Ambition	**Triggers to Advance Ambition**
• Customer, employee, regulator pressure is increasing • Access to capital is becoming reliant on sustainability performance • Executives desire a state of readiness for change	• Investor pressure is increasing • Executives want to differentiate, act on values or drive growth
Actions to Advance Ambition	**Actions to Advance Ambition**
Value chain — Isolated projects: • Institute or improve circular economy practices • Drive value chain transparency around carbon emissions	Value chain — Ecosystem innovation: • Initiate or participate in cross-industry partnerships
Products — Existing: • Align with U.N. Sustainable Development Goals • Make existing products and services more sustainable • Enable traceability	Products — New: • Productize circular economy practices • Develop new products and services that help the world become more sustainable
Leadership — Opacity: • Appoint a head of sustainability • Tie compensation to impact • Drive data quality, traceability and accessibility • Set goals (for example, becoming carbon-neutral) • Prepare to institute carbon accounting tools • Divest assets likely to become stranded	Leadership — Transparency: • Shift leadership to the CEO and board • Increase disclosure effectiveness • Set more-aggressive goals (for example, becoming climate-positive) • Value externalities • Influence legal frameworks to reduce their impact on business

Source: Gartner
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Analysis

Set Strategic Ambition Based on Business Outcomes

A strategic ambition is a scope and declaration of how far an enterprise intends to go to improve its environmental, social and economic impacts. The ambition is described in terms of tangible business objectives and outcomes or, in the case of government agencies, enterprise objectives and outcomes. Strategic ambition for sustainability includes compliance, optimization and transformation.

Sustainability Compliance Balances *Risk*

Achieving compliance with sustainability regulations is incredibly difficult, will become increasingly challenging and may require substantial transformation (like the ban on new combustion engine cars in some regions) . Bare compliance can leave enterprises exposed as contexts and situations change. Increasing regulations and activist investors create pressure to establish or advance focus on financial, legal and reputational sustainability risks. Sustainability compliance establishes a view of risk that aligns with enterprise risk appetite. This strategic ambition should consider both the threats to mitigate and the opportunities to exploit.

Sustainability Optimization Improves *Reputation*

Sustainable business actions can change brand reputation and the way that stakeholders view enterprises. More than half (55%) of surveyed leaders reported increased brand reputation as one of the top three benefits achieved by their sustainability programs (see Sustainability Survey: Key Findings and Recommendations). Other top benefits include improved resource efficiency (33%) , improved customer satisfaction (30%) and the ability to attract and retain talent (24%) . Executives who want to proactively mitigate sustainability risks, such as getting ahead of water security, seek a state of readiness that optimization enables. Sustainability executives should also work closely with communications to avoid harmful “greenwashing.”

Sustainability Transformation Drives *Returns*

The ClimateEconomy generates growth through decarbonization and cleaner, digital and circular business models (see ClimateEconomy: A Clean,Digital and CircularRevolution). Or, for government agencies, it may provide new mission opportunities. Sometimes, pursuing transformation is a choice. Other times, it is forced — for example, the automotive industry moving toward electric vehicles, smart mobility and other revenue sources beyond combustion engines.

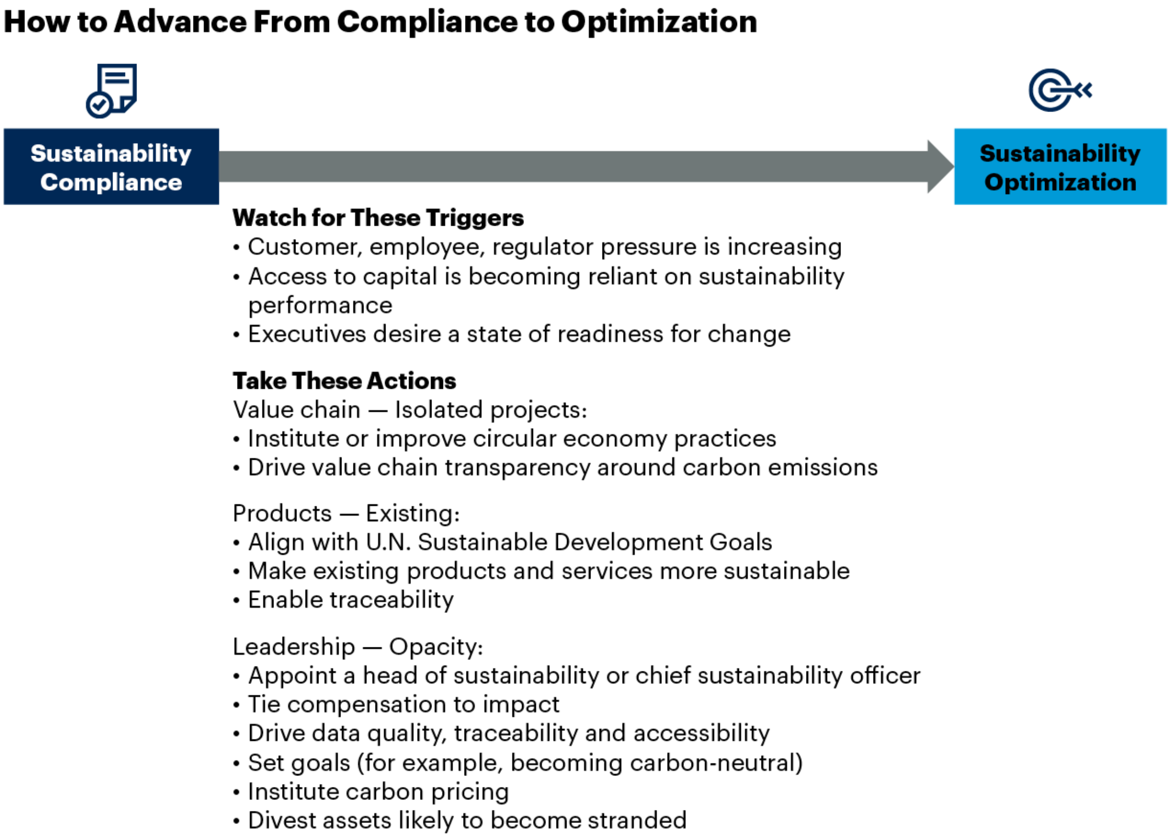
And as sustainability requirements permeate the supply chain, suppliers with documented and effective sustainable offerings will receive preferential pricing over less documented competitors. This could include everything from sustainably sourced materials, to reduced plastic waste products, to inclusive health and finance solutions, and beyond. Executives focused on sustainability transformation may gain access to cheaper finance and capital.

Advance Strategic Ambition If Change Triggers Are Present

Many CEOs will do just enough when it comes to sustainability, but others want to preempt change or differentiate from competitors. This means that strategic ambition may change in either direction over time. Here are some ways to know if, how and when to advance strategic ambition (see Figure 3) .

How to Advance From Compliance to Optimization

Figure 3: How to Advance From Compliance to Optimization



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Watch for These Triggers

- Stakeholder pressure is increasing, especially from customers, employees and regulators.
- Access to capital is becoming more reliant on an enterprise's environmental, social, and economic or governance performance.
- Executives want to be proactive with sustainability risks (for example, water security) and opportunities, rather than just acknowledge and track them.

Take These Actions

Value Chains

Institute or improve circular economy practices. Going beyond sustainability compliance means extending focus beyond the enterprise and into the value chain. This starts with transparency around carbon emissions, raw materials use and emissions impacts. For service industries, emissions reduction may focus on travel and IT expenditure, while circularity actions may focus on procured products (for example, office equipment). For product-based industries, emissions reduction actions are prioritized by impact from innovation to end of life.

Products and Services

Align with U.N. Sustainable Development Goals (SDGs). Executives often use the U.N. SDGs to identify ways that the enterprise can begin or deepen its purpose-driven journey. But the U.N. SDGs can also be used as guiding principles to improve products and services and align products with purpose. For example, LEGO aligns with the U.N.'s SDG 12 (responsible consumption and production) with an ambition to make core products from more sustainable material, reduce its product-related carbon footprint and limit its use of resources. [1]

Make existing products more sustainable. Executives can make products more sustainable by designing out waste through circular economy practices and using raw materials more efficiently. At times, executives may need to divest or reformulate products that no longer align with purpose. For example, Colgate-Palmolive shifted to packaging toothpaste in a recyclable tube. [2]

Enable product traceability. Product traceability is sometimes required for compliance mandates for safety purposes (for example, product recalls). But traceability is increasingly being used to engage customers and make information about environmental, social and governance (ESG) initiatives and corporate social responsibility (CSR) efforts more accessible. For example, Ralph Lauren uses QR codes to protect against counterfeiting. [3]

Leadership

Appoint a head of sustainability. Sustainability compliance programs often begin with one person, a spreadsheet, and an annual CSR or ESG report. Appoint a head of sustainability or chief sustainability officer to go beyond compliance.

Tie executive compensation to sustainability performance. ESG targets are increasingly being tied to executive pay. For example, 45% of Financial Times Stock Exchange 100 Index companies have an ESG target tied to a bonus, long-term incentive plan or both. [4] However, some question whether this is the right approach. If ESG is tied to a company's license to operate, why is it rewarded separately?

Set goals. Going beyond compliance requires executives to set goals. *Resist the pressure to declare a trendy "net-zero by 2030" type of goal.* Setting goals without planning the investment and resource strategy turns the goal from an opportunity to a risk.

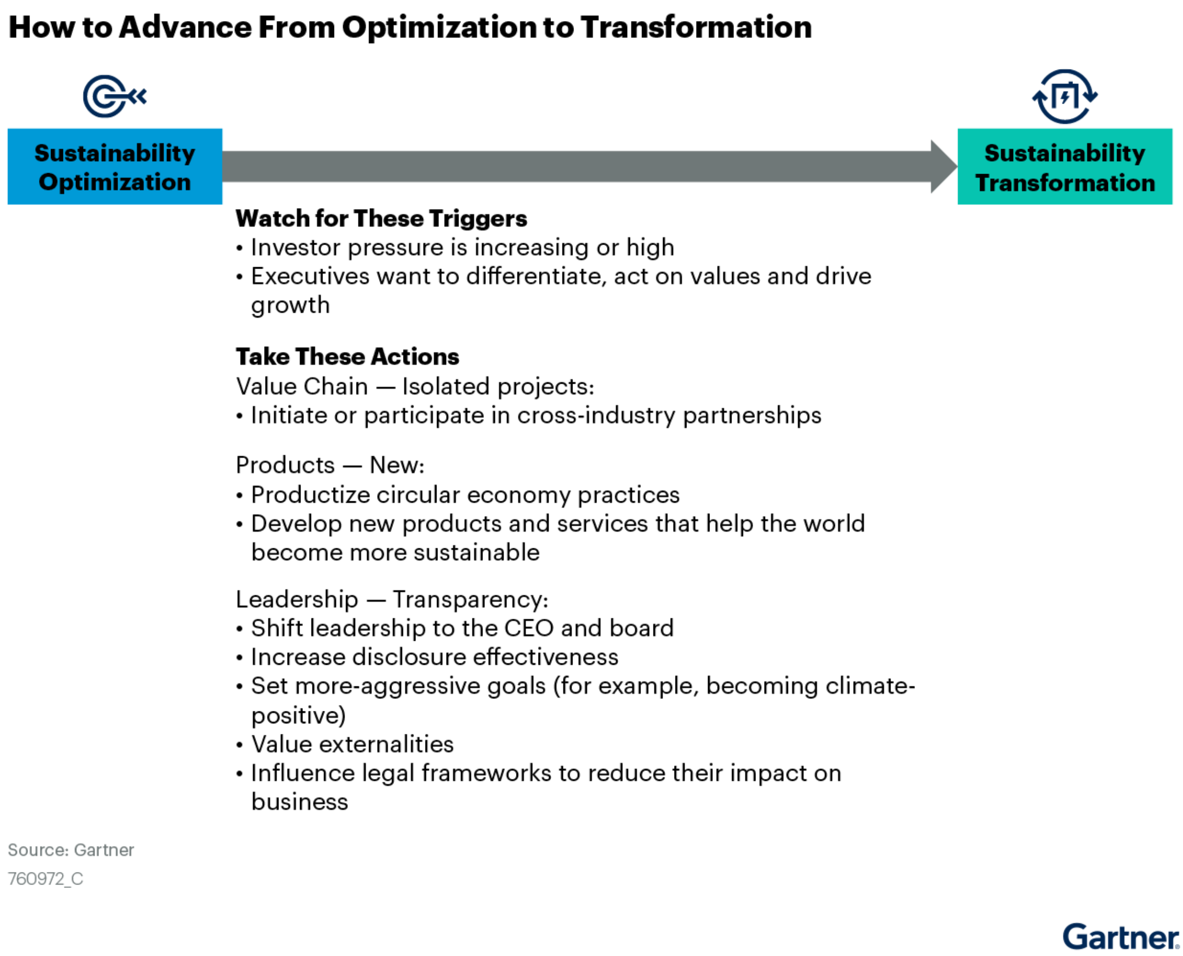
Improve data quality. Sustainability compliance requires data quality, traceability and accessibility, rather than marketing-grade, once-a-year CSR reports. Executives should open the floodgates to data. The old approach to ESG data was top-down: gather only specific data for material issues, goals and reporting frameworks. The new approach is dark data, or bottom-up: gain insights from a wide range of data. Automating ESG data collection can help with this, as can edge AI.

Create new structures for carbon accounting. Internal carbon accounting is extremely difficult. Even cost accounting systems today do not reach the levels needed for accurate carbon accounting. Carbon accounting will require retooling of accounting systems. But carbon border taxes will support investment in carbon remediation tools and processes.

How to Advance From Optimization to Transformation

Advancing beyond sustainability optimization is not always about responding to pressure. New products and business models can drive revenue growth (see Figure 4).

Figure 4: How to Advance From Optimization to Transformation



Watch for These Triggers

- Employee pressure for sustainability is rising.
- Executives decide to turn sustainable business into a growth opportunity.

Take These Actions

Value Chains

Initiate or participate in cross-industry partnerships. Partnerships within and across industries can improve both sustainability and supply chain resilience. The Ellen MacArthur Foundation New Plastics Economy initiative is a precompetitive collaboration example. It allows for sharing of sustainability projects with members. The group has also set up an innovation prize to stimulate designers and entrepreneurs.

Products

Productize circular economy practices. adidas has worked with Parley for the Oceans to produce clothing from fiber made from ocean plastics. [5] Patagonia has a circular economy marketplace called Worn Wear. It enables customers to trade in used clothing for credit. Patagonia takes the sold clothing for repair and resales. [6]

Develop new sustainable products and business models. Some oil and gas companies are pursuing green hydrogen, renewable energy and other new sources of revenue. Schneider Electric provides consulting services on climate change, climate advisory services, and supply chain decarbonization products and tools. [7]

Leadership

Shift leadership to the CEO and board. Sustainability transformation places a big bet that new sustainable products and business models will drive 30% or more of revenue within a 10-year period of time. Because it's a big bet, leadership should shift beyond the head of sustainability directly to the CEO and board. Governance typically includes:

- Board oversight
- A CEO-led executive council that sets strategy
- A task force that executes and makes recommendations

Increase disclosure effectiveness. Disclosing how ESG issues and initiatives affect key financial statement line items can help better educate investment analysts about ESG-related impacts. Increase disclosure effectiveness by considering the impact on company strategy, expressed values, interest from stakeholders and comparison with peers (see Investor Relations on ESG Disclosure Best Practices). Focus on the long-term viability of specific disclosures by discussing metrics with supply chain, logistics and other relevant functional groups.

Set more-aggressive goals. Executives cite more-aggressive goals as one of the reasons their enterprises are increasing spending on sustainability. Sustainability transformation goes beyond baseline goals like becoming carbon-neutral to goals like becoming climate-positive or climate-negative, and setting diversity, equity and inclusion (DEI) accountability.

Figure 5 sets out do's and don'ts for executive leaders to set strategic ambition and advance ambition for sustainability.

Figure 5: Use These Do's and Don'ts to Set Strategic Ambition and Advance Ambition

Use These Do's and Don'ts to Set Strategic Ambition and Advance Ambition

	Do Not ...	Do ...
Set Strategic Ambition Based on Three R's (Risk, Reputation, Returns)	• Assume stakeholders know what the strategic ambition is (most don't). • Treat employees and shareholders as the only stakeholders who need to know strategic ambition. • Force all business units to have the same strategic ambition.	• Communicate ambition 10 times in 10 different ways so stakeholders remember 10%. • Share strategic ambition with value and supply chain partners and solicit collaboration. • Allow differences at the business unit level. For example, a retail bank may focus on net-zero mortgages (optimization) and financial inclusion (transformation).
Advance Ambition If Triggers Are Present	• Lose sight of shareholder value. Purpose without profit is untenable for publicly traded companies. • Identify transformation as a "better" strategic ambition than compliance or optimization. • Rush to declare net zero.	• Wait for the presence of change triggers to advance strategic ambition. • Gain experience and credibility by focusing on compliance and optimization in early stages. • Gather data for two to three years to ensure a realistic time frame.

Source: Gartner
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Evidence

2022 Gartner Sustainability Opportunities, Risks and Technologies Survey: This survey was conducted to identify how sustainability can foster opportunities, mitigate risks, amplify responsible digital technologies and control energy costs. The research was conducted online from 21 June through 21 July 2022. In total, 221 respondents were interviewed across North America (n = 75) , Europe (n = 77) and Asia/Pacific (n = 69) . Respondents represented qualifying organizations in information technology, manufacturing, financial services, retail and other industries with reported enterprisewide annual revenue for fiscal year 2021 of at least $250 million. Qualified organizations also were currently engaged in sustainability-related activities. Respondents were leaders or executives in director roles or above and were directly involved in making sustainability-related decisions. Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[1] 2022 Sustainability Progress, United Nations.

[2] ColgateLaunches Its Groundbreaking Recyclable Toothpaste Tube With “Recycle Me!” Packaging in the U.S., Colgate-Palmolive.

[3] Protecting Our Brands, Ralph Lauren.

[4] Executive Pay and ESG Performance, Harvard Law School Forum on Corporate Governance.

[5] adidas and Parley for the Oceans, adidas.

[6] Worn Wear, Patagonia.

[7] Innovate With Schneider Electric, Schneider Electric.

Document Revision History

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