

brandlogic

KEYS TO SUSTAINABILITY LEADERSHIP

Five best practices

A note from the author

In 2011 we published the first annual *Sustainability leadership report: Measuring perception vs. reality*.^{*} In it we summarized a landmark study, conducted by Brandlogic and CRD Analytics, of 100 global companies across a comprehensive spectrum of industries. Its goal: to provide a new perspective on sustainability by comparing perceptions of key stakeholders to reported corporate performance on environmental, social and governance (ESG) factors.

The study findings are a useful resource that can help those responsible for managing corporate reputations, brands, citizenship programs and CSR reporting to:

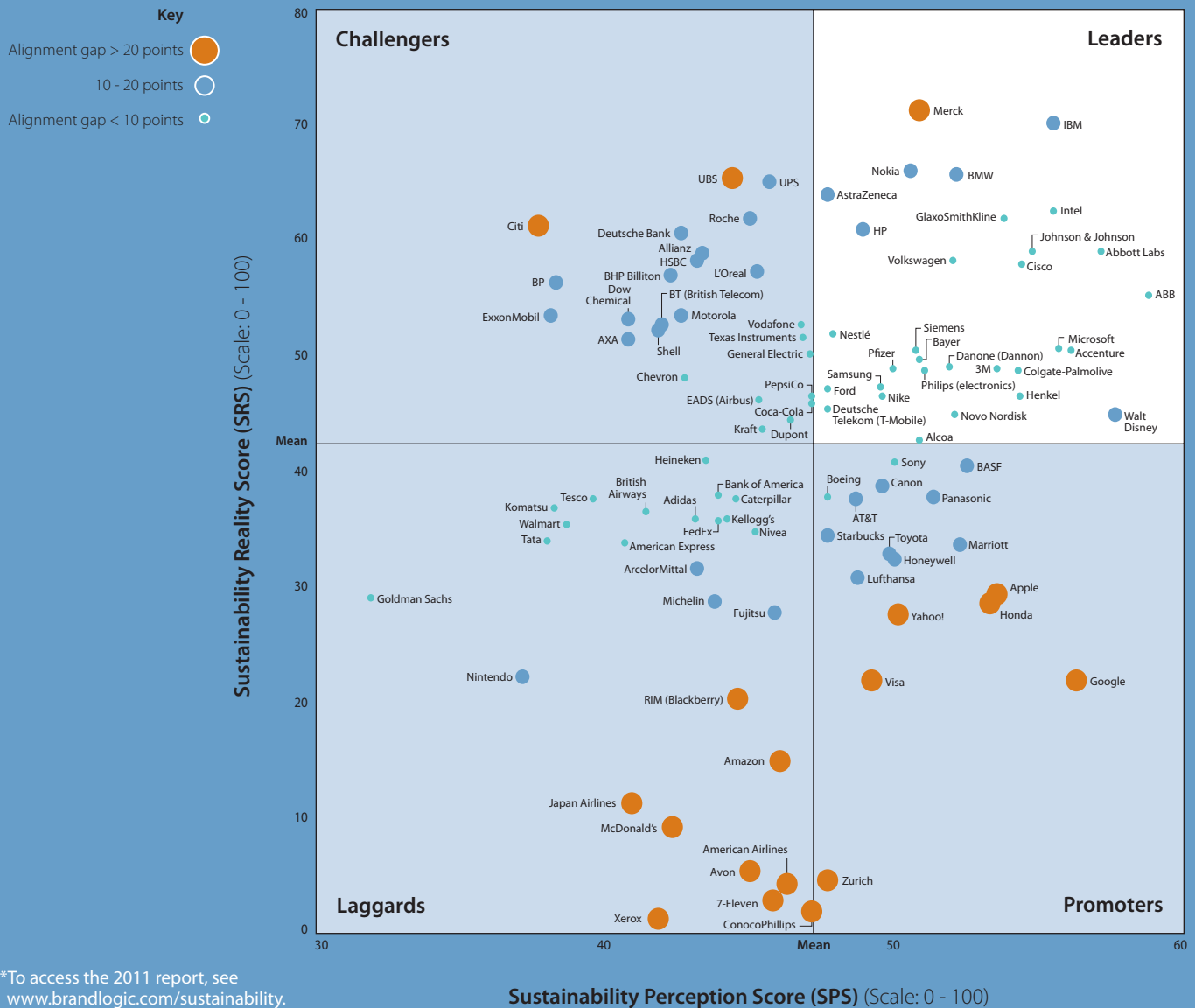
- Quantify their company's relative performance against peers on both real and perceived dimensions of sustainability
- Understand the gaps between their company's real and perceived performance
- Achieve valuable insights that will help them target both stakeholder communications and operational investments

- Measure and monitor their sustainability performance over time relative to an objective third-party benchmark.

Since publishing the report and the Sustainability IQ Matrix at its core (below), we have had direct discussions of the results with roughly half the companies covered by the study. These discussions and our natural curiosity as consultants regarding best practices led us to examine the activities of the Leaders identified by our study in more depth.

Through this follow-up work we have identified five best practices broadly shared by companies that display sustainability leadership today. In this article, we share high-level findings on these practices to shed further light on emerging new standards for corporate sustainability leadership and its role in building great brands.

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^{*}To access the 2011 report, see www.brandlogic.com/sustainability.

CORPORATE SUSTAINABILITY: THE NEW LEADERSHIP FRONTIER

In every era, some organizations are judged to be leaders. What earns them this distinction, however, is not constant. The criteria that define “leadership” have evolved over time, from excellence in R&D and new product development, to operational excellence and process reengineering, to a focus on core competencies. In recent years the yardstick has been the ability to innovate.

Today the framing of corporate leadership is shifting again, to a concept that encompasses the learning and best practices from all these antecedents: *corporate sustainability*.

This is not surprising, given the intense competition for resources on a global scale. It is quite natural for the world to look to the large institutions that control so much of the planet’s physical resources and human talent to lead the way to a more sustainable future.

The move towards sustainability is not simply the pursuit of a worthy cause, nor is it about mollifying the concerns of a particular NGO or shareholder group. Rather, it is recognition that those who can make efficient and responsible use of natural resources and human capital are more likely to be the destination of choice for talent and investment.

More CEOs are grasping the fact that the world has already entered an era in which a corporation’s reputation, defined by both deeds and rhetoric, has become an important measure of competitiveness. Sustainability is emerging as one of several key criteria for judging the quality of companies and their leaders among investors, supply chain partners and talented young people entering the workforce. These stakeholders are influenced to a greater degree than general consumers, for whom purchase decisions are most often still focused on features, benefits and value – the here and now – than on a company’s longer-term sustainability.

The concept of sustainability extends beyond environmental impact, although this consideration naturally looms large especially for manufacturing and extraction businesses. Today, sustainability assessments include environmental and social practices, as well as related governance (or ESG).

Accepted ESG reporting benchmarks such as the Global Reporting Initiative (GRI) standards are emerging to assist those who seek to establish sustainability leadership. However, there has been little guidance on where to focus investments or how to integrate sustainability into corporate strategy and brand communications.

EXAMINING SUSTAINABILITY

OF 100 COMPANIES COVERED IN OUR REPORT, 31 WERE LEADERS

They represent \$2.81 trillion in market capitalization (as of 5/1/12)

The industries they represent:

- 8 Pharmaceuticals/Healthcare
- 8 Information Technology
- 6 Consumer Discretionary
- 3 Industrials and Transportation
- 3 Consumer Staples
- 2 Telecom and Internet
- 1 Materials and Mining
- 0 Financial Services
- 0 Energy (Oil & Gas)

The countries in which they are headquartered:

- 15 United States
- 6 Germany
- 2 United Kingdom
- 2 Switzerland
- 1 Denmark
- 1 Netherlands
- 1 Korea
- 1 France
- 1 Finland
- 1 Ireland

In 2011 we undertook a global study in the hope of shedding light on how well firms at the top of major industries are responding to the new leadership challenge. An executive summary of the study, *Sustainability leadership report: Measuring perception vs. reality*, is available at brandlogic.com/sustainability.

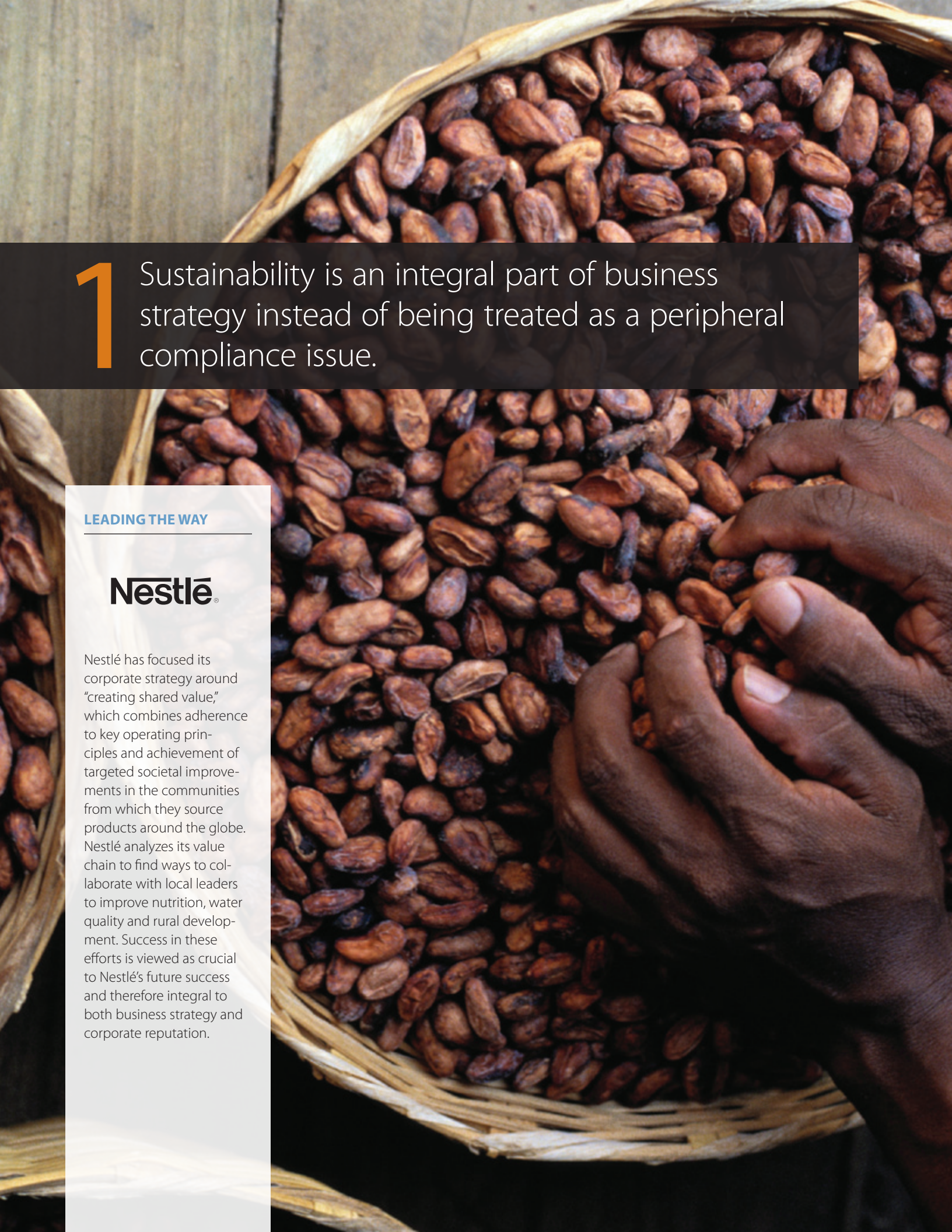
The premise of the study is that best-practice corporate reputation building demands both operational excellence and compelling storytelling. Therefore, we set out to measure for the first time the ESG standing of 100 prominent companies, in a way that compares real with perceived performance.

To provide an established and accepted point of departure, the ratings of actual performance were provided by CRD Analytics, which supplies data for the NASDAQ Sustainability Index. For the perception ratings, we conducted our own survey.

We were interested in obtaining the views of the core constituencies who are most attentive to corporate sustainability performance. The perception survey concentrated on investment professionals, purchasing/supply management professionals and graduating university/college students. The survey was conducted in the US, UK, Germany, China, Japan and India and obtained over 16,000 ratings of companies by the respondents.

By comparing companies on these two dimensions we were able to identify a number of true **Leaders**, which scored highly in both actual and perceived sustainability performance. These are companies whose leadership teams excel in both the operational and communications dimensions of sustainability relative to their peers. Other companies excelled on one dimension or the other, but not both (*Promoters* had high perception/low actual scores, while *Challengers* trailed in perception but did well in real performance). The last group, *Laggards*, trailed on both dimensions.

Five practices were largely shared by our *Leaders*, indicating key areas of focus in the race for sustainability leadership.



1 Sustainability is an integral part of business strategy instead of being treated as a peripheral compliance issue.

LEADING THE WAY

Nestlé

Nestlé has focused its corporate strategy around “creating shared value,” which combines adherence to key operating principles and achievement of targeted societal improvements in the communities from which they source products around the globe. Nestlé analyzes its value chain to find ways to collaborate with local leaders to improve nutrition, water quality and rural development. Success in these efforts is viewed as crucial to Nestlé’s future success and therefore integral to both business strategy and corporate reputation.

2 Responsibility is taken for the impact of internal operations, as well as those of associated entities such as supply chain partners. Alliances have been formed to foster progress on targeted sustainability issues.



LEADING THE WAY

ABB takes responsibility in three main areas: raising environmental performance/lowering impacts; improving management of health, safety, social, environmental and security risks in its operations and projects; and improving sustainability performance in its supply chain and acquired companies. The ABB Supplier Code of Conduct (SCC), which defines minimum standards for any company wishing to sell to ABB, underpins these efforts. The code covers supplier performance in fair and legal labor conditions, occupational health and safety, environmental responsibility and business ethics. The SCC also requires suppliers to be responsible for the sustainability performance of subcontractors.



3 GRI standards for reporting have been implemented and the materiality of the issues they highlight is understood, for both the company and all stakeholders. *Leaders* excel at meeting these standards fully and transparently, even those that may not seem relevant.

LEADING THE WAY



BMW stands out as an exemplar for the quality, as well as thoroughness, of its sustainability reporting. Its top ranking for seven years running in the Dow Jones Sustainability Index is testimony to its leadership. The story is told eloquently, with reporting broken into three focus areas: product responsibility (97% product recyclability designed in), environmental protection (identifying measures for improved protection at early stages of investment), and society (road safety, education and health).

4 Sustainability has been integrated into the brand and client value propositions.



LEADING THE WAY



IBM decided earlier than many to integrate sustainability into its brand and customer value propositions. It has effectively used its Smarter Planet™ theme to communicate how the company helps its clients enhance their performance in ways that foster sustainability. Recent IBM advertising has been focused almost exclusively on outcomes and social benefit, rather than products and services. While some companies such as Intel choose to build reputation through secondary communication channels, most of the study's *Leaders* follow the IBM example.

5

Operational initiatives and related communications are focused on carefully selected themes tied to the core of the business. Varied, yet complementary, communications to key stakeholder groups are used to get the word out.



LEADING THE WAY

Thematically and operationally, Cisco Systems concentrates on demonstrating leadership on two issues, closely linked to its business and brand. Socially, Cisco is focused on education – helping people around the world develop and use IT skills. The environmental theme is “Energy-wise” – helping customers reduce greenhouse emissions and create smart buildings.

Cisco provides a range of communications geared toward different audiences, including the socially responsible investment community, the market for talent, those focused on social responsibility and/or environmental issues, along with a more general audience.

IT'S ABOUT MORE THAN REPORTING

The study findings indicate that top companies have embraced sustainability reporting and practices. They understand that this is not merely a reporting exercise, though full and transparent disclosure is essential. Rather, they have successfully integrated sustainability themes into their corporate stories, mission, vision and values and in many cases, directly into their brand and customer value propositions. Moreover, they comprehend that sustainability encompasses social and governance factors as well as the environment.

Perhaps more important is a clear understanding of the implications of sustainability performance. Companies with high perception but low actual performance have considerable value at risk, should public attitudes change. Conversely, companies with high actual performance but trailing perception have the potential to secure unrealized ROI by leveraging operational excellence through improved communications.

Companies that display true leadership in this emerging field are positioning themselves to excel in an increasingly challenging environment. They are taking the high ground, both internally by building sustainability into the business and externally by informing the world about their efforts.

Find the best way for your organization to integrate your sustainability initiatives with business and brand strategies.

ABOUT BRANDLOGIC

Our clients



Brandlogic is a leading full-service brand consultancy, the only 100% employee-owned firm among our peers. We live at the intersection of strategy, design, technology and sustainability, helping global organizations create *ideas that drive performance.*

We help companies through:

- Stakeholder engagement
- Sustainability and CSR reporting
- Benchmarking research
- Materiality mapping
- Brand strategy
- Identity design
- Digital development
- Customer experience design
- Name creation
- Brand management

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Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber

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