Executives at all levels see an important business role for sustainability. But when it comes to mastering the reputation, execution, and accountability of their sustainability programs, many companies have far to go.

**Company leaders are rallying behind sustainability,** and executives overall believe the issue is increasingly important to their companies’ strategy. But as it continues to grow into a core business issue, challenges to capturing its full value lie ahead. These are among the key findings from our most recent McKinsey survey on the topic, which asked respondents about the actions their companies are taking to address environmental, social, or governance issues, the practices they use to manage sustainability, and the value at stake.

One such challenge is reputation management. Year over year, large shares of executives cite reputation as a top reason their companies address sustainability; of the 13 core activities we asked about, they say reputation has the most value potential for their industries. However, many of this year’s respondents say their companies are not pursuing the reputation-building activities that would maximize that financial value.

Comparing companies with the most effective sustainability programs (our sustainability “leaders”) with others in their industries highlights another obstacle: incorporating sustainability into key organizational processes, such as performance management, one area where the leaders report better results than others. Beyond strong performance on

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1 The online survey was in the field from February 11 to February 21, 2014, and garnered responses from 3,344 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent’s nation to global GDP.
processes, the leaders share other characteristics that are keys to a successful sustainability program—among them, aggressive goals (both internal and external), a focused strategy, and broad leadership buy-in.

**Sustainability rising**

According to executives, sustainability is becoming a more strategic and integral part of their businesses. In past surveys, when asked about their companies’ reasons for pursuing sustainability, respondents most often cited cost cutting or reputation management. Now 43 percent (and the largest share) say their companies seek to align sustainability with their overall business goals, mission, or values\(^2\)—up from 30 percent who said so in 2012 (Exhibit 1).

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**Exhibit 1**

*More and more companies are addressing sustainability to align with their business goals.*

% of respondents\(^1\)

**Top 3 reasons that respondents’ organizations address sustainability\(^2\)**

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Reputation</th>
<th>Cost cutting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Align with company’s business goals, mission, or values(^3)</td>
<td>Build, maintain, or improve corporate reputation</td>
<td>Improve operational efficiency and lower costs</td>
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<tbody>
<tr>
<td>Alignment</td>
<td>21</td>
<td>31</td>
<td>30</td>
<td>43</td>
<td>36</td>
<td>32</td>
<td>35</td>
<td>36</td>
<td>19</td>
<td>33</td>
<td>36</td>
<td>26</td>
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<tr>
<td>Reputation</td>
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<td>Cost cutting</td>
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</table>

\(^1\)In 2010, n = 1,749; in 2011, n = 2,956; in 2012, n = 3,847; and in 2014, n = 2,904. The survey was not run in 2013.

\(^2\)Out of 12 reasons that were presented as answer choices in the question.

\(^3\)From 2010 to 2012, the answer choice was “Align with company’s business goals.”
One reason for the shift may be that company leaders themselves believe the issue is more important. CEOs are twice as likely as they were in 2012 to say sustainability is their top priority. Larger shares of all other executives also count sustainability as a top three item on their CEOs’ agendas (Exhibit 2).

As sustainability rises in significance, capturing its full value grows more challenging—perhaps because the more that companies prioritize sustainability, the more it needs to be integrated into (and even change) the core business. At companies that are already taking action, respondents most often cite challenges related to execution: the absence of performance incentives and the presence of short-term earnings pressure that’s at odds with the longer-term nature of these issues. Accountability is an increasing concern:
34 percent of executives (compared with 23 percent in 2011) say too few people at their companies are accountable for sustainability. At companies that aren’t pursuing sustainability activities, respondents continue to cite a lack of leadership prioritization as the top challenge to taking action.

**Reckoning with reputation**

Of 13 core sustainability activities we asked about, executives most often say their companies are reducing energy use in operations (64 percent), reducing waste (63 percent), and managing their corporate reputations for sustainability (59 percent). These actions were cited most often in 2011 and 2012, and a growing share of executives now identifies reputation management as a core activity. They are also most likely to say that among these activities, reputation management has the highest value-creation potential for their industries over the next five years.

Yet there’s a lack of clarity around reputation management, compared with other, better-defined activities, such as reaching new markets with sustainable products. We asked executives what actions the companies they work for take to manage their reputations, and, on average, companies most frequently communicate their activities to consumers and maintain stakeholder relationships. Yet the results vary by industry, indicating that companies understand and value reputation in very different ways (Exhibit 3).

Many of the differences depend on how much action companies are taking on reputation, and on the overall sustainability agenda. In extractive services, executives say their companies are pursuing seven core sustainability activities, with three-quarters saying reputation management is one of them (compared with 59 percent of all respondents). The reputation-building actions these companies focus on—local community investments, external reporting, and employee volunteering—differ, then, from those of their peers in high tech, where companies take an average of five actions and just half of respondents say reputation management is one of them. These results confirm that there’s no one-size-fits-all approach to reputation, possibly one reason why reputation, like sustainability more broadly, is hard for many companies to manage.
Exhibit 3
Companies' current approaches to reputation management vary by industry.

<table>
<thead>
<tr>
<th>Reputation-management activities that companies are currently pursuing</th>
<th>Industries</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing, n = 303</td>
<td>High tech, n = 105</td>
<td>Financial, n = 184</td>
<td>Extractive services, n = 94</td>
</tr>
<tr>
<td>Communicating company's sustainability activities to consumers</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and maintaining external-stakeholder relationships</td>
<td></td>
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<tr>
<td>Implementing policies on ethical issues or business practices</td>
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<tr>
<td>External reporting of and transparency on activities</td>
<td></td>
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<tr>
<td>Sponsoring events or participating in sustainability-focused membership organizations</td>
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<tr>
<td>Employee volunteering</td>
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<td></td>
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<tr>
<td>Economic investments in communities where companies operate</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changing core business practices to strengthen or improve reputation</td>
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<td></td>
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<tr>
<td>Company leaders shape external debate around environmental, social, or economic issues</td>
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<td></td>
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<tr>
<td>Broader societal investments</td>
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</tr>
</tbody>
</table>

1 Respondents who answered “other,” “none of the above,” or “don’t know” are not shown. This question was asked only of respondents who said their companies are currently managing their corporate reputations for sustainability.
2 Activities are arranged in descending order, based on the total-level responses to the question.
When asked which activities maximize financial value, respondents most often cite customer communications. Beyond that, there are disparities between current reputation-management activities and the ones that are most critical to value creation (Exhibit 4). These results also vary by industry and reflect the importance of understanding and communicating sustainability's financial value, from the leadership down. In extractive services, where the board and C-suite are most engaged and respondents are the most likely to expect that sustainability will create value, respondents identify the same activity

### Exhibit 4
The reputation-management activities viewed as most important are not necessarily the most pursued.

<table>
<thead>
<tr>
<th>Activities that are most important to maximizing financial value</th>
<th>Activities that companies are currently pursuing</th>
</tr>
</thead>
<tbody>
<tr>
<td>39% Communicating company’s sustainability activities to consumers</td>
<td><img src="https://example.com" alt="60%" /></td>
</tr>
<tr>
<td>34% Changing core business practices to strengthen or improve reputation</td>
<td><img src="https://example.com" alt="41%" /></td>
</tr>
<tr>
<td>33% Building and maintaining external-stakeholder relationships</td>
<td><img src="https://example.com" alt="60%" /></td>
</tr>
<tr>
<td>32% Implementing policies on ethical issues or business practices</td>
<td><img src="https://example.com" alt="57%" /></td>
</tr>
<tr>
<td>29% External reporting of and transparency on activities</td>
<td><img src="https://example.com" alt="57%" /></td>
</tr>
<tr>
<td>23% Economic investments in communities where companies operate</td>
<td><img src="https://example.com" alt="43%" /></td>
</tr>
<tr>
<td>22% Company leaders shape external debate around environmental, social, or economic issues</td>
<td><img src="https://example.com" alt="40%" /></td>
</tr>
<tr>
<td>17% Sponsoring events or participating in sustainability-focused membership organizations</td>
<td><img src="https://example.com" alt="52%" /></td>
</tr>
<tr>
<td>13% Employee volunteering</td>
<td><img src="https://example.com" alt="52%" /></td>
</tr>
<tr>
<td>12% Broader societal investments</td>
<td><img src="https://example.com" alt="39%" /></td>
</tr>
</tbody>
</table>

1 Respondents who answered “other,” “none of the above,” or “don’t know” are not shown.
2 Respondents were asked to select up to 3 activities that are most important to pursue, to capture the maximum financial value from sustainability. When asked about the activities their companies are already pursuing, respondents were instructed to select all that apply.
(community investment) as a current action and a source of value. In contrast, those in financial services—where respondents report the lowest level of leader engagement and perceived value—most often cite employee volunteering, the activity they rank lowest with respect to value creation.

**What leadership looks like**

Regardless of a company’s industry, its value-creation efforts require certain organizational traits. From our experience and previous work, we identified a few as the building blocks of a successful sustainability program. Indeed, when we identified our sustainability leaders—companies where executives report the strongest performance on core sustainability activities, relative to industry peers—we found that they share these characteristics.

It’s not surprising that leaders are much likelier than other companies to possess all 12 of these characteristics, though the results suggest which traits differentiate leaders from the rest (Exhibit 5). Executives at these companies are almost five times more likely than others to

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**Exhibit 5**

**Sustainability ‘leaders’ set themselves apart through target setting and a clear strategy.**

<table>
<thead>
<tr>
<th>Organizational characteristics that are true of respondents’ companies</th>
<th>Sustainability leaders, n = 264</th>
<th>All other respondents, n = 2,370</th>
</tr>
</thead>
<tbody>
<tr>
<td>We set aggressive external targets or goals for our sustainability initiatives</td>
<td>53</td>
<td>11</td>
</tr>
<tr>
<td>We have a unified sustainability strategy with clearly articulated strategic priorities (eg, no more than 5 focus areas)</td>
<td>69</td>
<td>19</td>
</tr>
<tr>
<td>We set aggressive internal targets or goals for our sustainability initiatives</td>
<td>60</td>
<td>17</td>
</tr>
<tr>
<td>A broad leadership coalition is involved in shaping or cocreating the sustainability strategy, goals, and milestones</td>
<td>65</td>
<td>19</td>
</tr>
<tr>
<td>The financial benefits of sustainability are clearly understood across the organization</td>
<td>51</td>
<td>18</td>
</tr>
</tbody>
</table>

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1 Out of 12 characteristics that were presented as answer choices in the question.
say they use aggressive external goals for sustainability, more than three times likelier to report a focused strategy, and nearly three times likelier to report an organization-wide understanding of sustainability’s financial benefits. In addition, leaders more often have in place the key components of performance management, such as aggressive internal goals and broad leadership coalitions to develop their programs.4

What’s more, much larger shares of executives at the leader organizations say their top leaders prioritize sustainability and report higher employee engagement on sustainability at every level, including CEOs, board members, and sustainability advisory committees. They report that their companies are taking more action to manage the life cycles of their products, and are four times more likely than others to say they have already implemented a life-cycle strategy. And they say their companies face fewer barriers to realizing value from sustainability, because they report better overall performance on the practices that underpin a healthy sustainability organization.

Organizing for sustainability
To better understand the defining traits of well-performing sustainability programs, we examined the organizational practices that underlie these characteristics. Of these, executives say their companies are better at fostering an organizational culture around sustainability and setting the direction for their programs. They struggle most with components of program

4The other characteristics we asked about were top-leadership attention to and prioritization of sustainability; a sufficiently long-term view in strategic planning so sustainability is incorporated into overall strategy; use of accurate indicators and metrics to assess actual performance on sustainability; having change agents who lead sustainability efforts; a clear, organization-wide understanding of how sustainability aligns with strategy; a sustainability philosophy that permeates day-to-day processes; and playing an industry-leadership role on sustainability.
Incorporates sustainability into individual performance assessments

Offers career-development opportunities to top sustainability performers

1 Respondents who answered “don’t know” are not shown, so figures may not sum to 100%.

execution, including employee motivation, capability building, and coordination of their sustainability work, which is reflected in the responses on specific practices (Exhibit 6). These results make sense, given the current levels of alignment between sustainability and various elements of the organization. Fifty-eight percent of executives say sustainability is fully or mostly integrated into their companies’ culture, compared with 38 percent who say so for performance management.
Looking more closely at individual practices, some interesting patterns emerge. We identified four distinct approaches to the sustainability organization: leader supported, execution focused, externally oriented, and deeply integrated (see sidebar, “Four approaches to the sustainability organization”). The first approach is characterized by actively engaged leaders across the company, employee encouragement, and clear strategy; the second by clear structure, accountability, and middle-manager engagement; the third by the use of external ideas, networks, and relationships, as well as top-leader and middle-manager engagement; and the fourth by employee incentives for sustainability work, a focus on talent, and even engagement on sustainability at all levels of tenure. Our sustainability leaders are represented in each of these four approaches, confirming that there’s no single formula for sustainability success.

**Looking ahead**

- **Extend the product life cycle.** Today, resource constraints are creating unprecedented prices and volatility in natural-resource markets. Yet the results indicate that most companies have not even begun to implement strategies that extend the life of their products and thereby reduce their resource dependence in a significant way. According to our other research, there is huge value potential in better design and in the optimization of products for multiple cycles of disassembly and reuse. Forward-looking companies should begin investing in the “circularity” of their products, for the benefit of society and for their bottom line. On materials alone, companies could potentially save more than $1 trillion per year.

- **Look to technology.** Similarly, technological advances are creating opportunities to drive sustainability solutions. Yet only 36 percent of respondents say their companies are mostly or fully integrating sustainability into their data and analytics work. Companies that want to capture increasing value in a resource-constrained world should spend more time thinking about how to integrate their technological capabilities into their overall sustainability agenda.

- **Focus your strategy.** As sustainability becomes more central to the business, companies should align internally on what they stand for and what actions they want to take on these issues, whether it’s economic development or changing business practices. Whatever approach companies take, they should develop a strategy with no more than five clear, well-defined priorities—one of the key factors for successful sustainability programs.

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The contributors to the development and analysis of this survey include **Sheila Bonini**, a senior expert in McKinsey’s Silicon Valley office, and **Anne-Titia Bové**, a specialist in the São Paulo office.

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Leader supported
Employees at all levels of the organization (including the CEO) engage with sustainability issues and activities, there is a strong focus on impact and on the employee’s role in sustainability, and the vision and strategy for the program are clear. This category accounts for 14 percent of overall sustainability leaders.

Top five organizational practices:
• leaders inspiring employees with encouragement and recognition
• appealing to employees’ values around sustainability
• enabling collaboration on sustainability activities
• leaders involving and empowering employees on sustainability work
• translating the sustainability vision into clear strategy and goals

Companies pursue sustainability so they can:
• identify and address an issue on which the business can have a tangible, positive impact

Organizational processes where sustainability is more integrated:
• strategic planning, internal communications, human resources, corporate culture

Execution focused
Sustainability programs focus heavily on corporate reputation and competitive positioning. Of all employees, middle managers engage the most with sustainability issues, while CEOs are the least engaged among the four approaches. This category accounts for 13 percent of overall sustainability leaders.

Top five organizational practices:
• including sustainability in performance assessments
• providing clear structure, roles, and responsibilities for efforts
• using key indicators and targets to manage performance
• including sustainability in skill-building methods and tools
• translating the sustainability vision into clear strategy and goals

Companies pursue sustainability so they can:
• align with company’s business goals, mission, or values

Organizational processes where sustainability is more integrated:
• business units, supply-chain management, external communications
Externally oriented
Top leaders and middle managers engage most on sustainability issues, and they are most concerned with consumer expectations, stakeholder demands, and their overall competitive positioning. These companies are the most likely to have a separate sustainability advisory council. This category accounts for 20 percent of overall sustainability leaders.

Top five organizational practices:
• capturing ideas and best practices from external parties
• using competitive insights to inform a sustainability strategy
• maintaining a network of external partners to drive sustainability
• using customer insights to respond to customers’ needs
• developing strong relationships with local communities and governments

Companies pursue sustainability so they can:
• strengthen competitive positioning (for example, securing essential inputs to production, responding to competitive pressure)

Organizational processes where sustainability is more integrated:
• R&D, sales and marketing, external communications

Deeply integrated
Sustainability is embedded most intensively across all processes, and the organization’s senior and middle managers are the most involved in sustainability activities. They pursue growth opportunities, respond to regulatory issues, and focus on broader impact. This category accounts for 36 percent of overall sustainability leaders.

Top five organizational practices:
• offering career opportunities to top sustainability performers
• using the sustainability program as an opportunity for talent development
• including sustainability in performance assessments
• including sustainability in skill-building methods and tools
• monitoring performance standards for sustainability

Companies pursue sustainability so they can:
• develop new growth opportunities (for example, new markets, products)

Organizational processes where sustainability is more integrated:
• employee engagement, performance management, data and analytics