McKinsey & Company

Sustainability Practice

How companies capture the value of sustainability: Survey findings

What makes the difference between a sustainability program that produces business value and one that doesn't? A new survey identifies practices that distinguish value-creating companies from others.

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Amid widening recognition of how environmental issues such as climate change create business opportunities and risks, results from a McKinsey Global Survey[1] show that companies that generate value from their sustainability programs follow a distinctive set of management practices. Survey respondents say these companies are more likely than others to make sustainability a strategic priority and to set out specific aspirations and targets. Responses also suggest that value-creating companies are more likely than others to make sustainability an element of their corporate culture and train employees on how to integrate sustainability into their work.

Survey results indicate that value-creating companies are more apt to engage customers and business partners in their sustainability agendas. Compared with those at other companies, more respondents from value-creating companies say they collaborate with customers and suppliers on addressing sustainability issues, adjust product portfolios to be more sustainable, and account for sustainability factors when selecting and evaluating suppliers. Respondents from value creators are also more likely than others to report that sustainability issues inform how their company manages its facilities and its transportation networks.

Looking five years ahead, about two in five respondents to our survey say they expect their companies to generate value from sustainability. Understanding the distinctive practices of today's value-creating companies could help others find a way to join their ranks.

Survey results suggest that to catch up with the value creators, other companies might start by understanding which practices are most closely linked with positive financial impact.

[1] The online survey was in the field from January 21 to January 31, 2020, and garnered responses from 2,475 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures.

An optimistic outlook

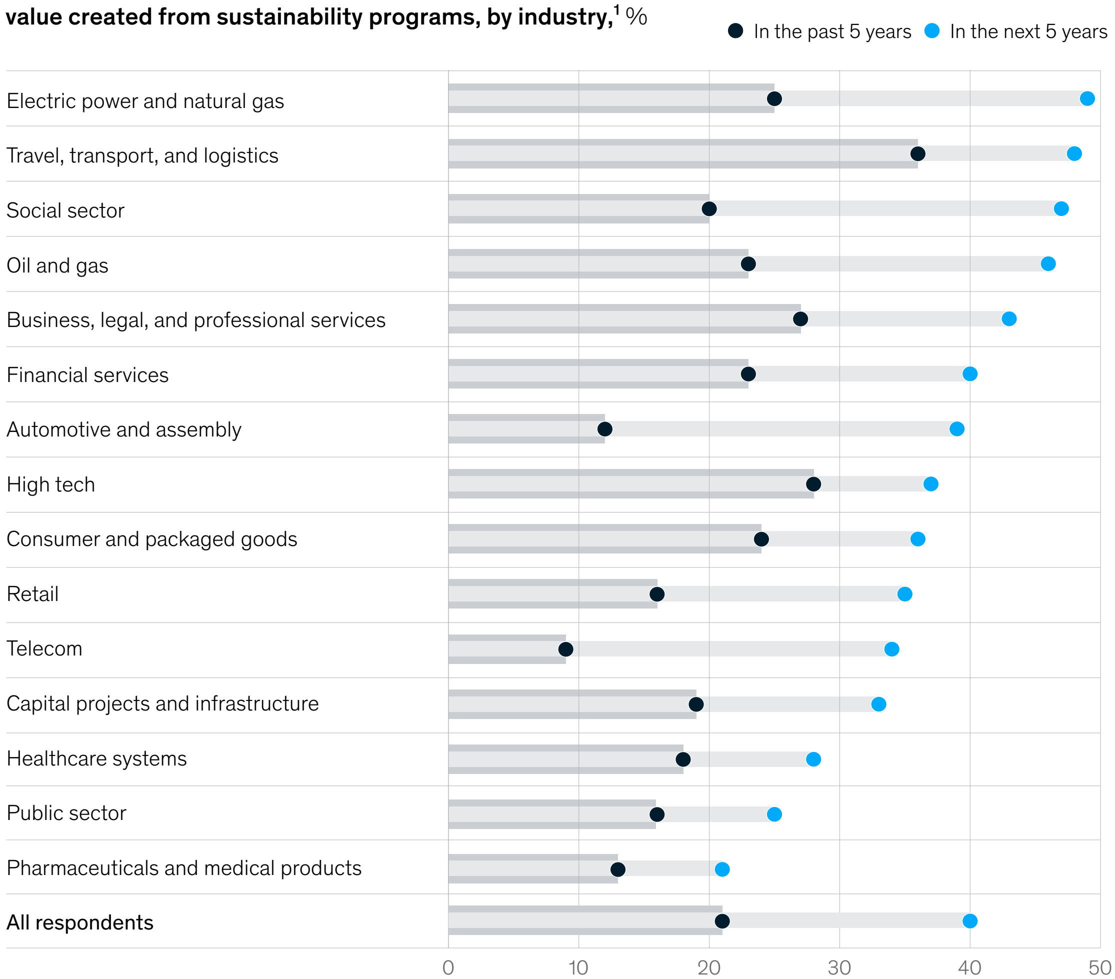
Sustainability endeavors often make good business sense, promising to deliver revenue gains, cost savings, and other benefits that lift enterprise value. In our survey, 22 percent of respondents—the value-creating group that this article focuses on—say their companies realized modest or significant value from sustainability in the past five years. Nearly as many respondents say their companies' sustainability programs resulted in significant or moderate cost increases. About one-third say their companies' sustainability programs have had minimal or no financial impact.

Respondents are also optimistic that their companies' sustainability programs will yield value in the future. Compared with the proportion who say these programs have already created value, nearly twice as many respondents, or 40 percent, say they expect the programs to generate modest or significant value in the next five years. Respondents in a few specific industries are especially likely to predict that their companies will create value from sustainability during that five-year timeframe. These industries include some—such as automotive; electric power and natural gas; oil and gas; and travel, transport, and logistics—that play pivotal roles in curbing climate change (Exhibit 1).

Exhibit 1

Forty percent of respondents expect company sustainability programs to generate value in the next five years—nearly double the current share.

Share of respondents who report or expect 'modest' or 'significant' value created from sustainability programs, by industry,[1] %



[1]Total 7 answer choices presented: "significant cost," "modest cost," "minimal to no cost or value," "modest value," "significant value," and "don't know"; n = 2,421. Only industries that received meaningful numbers of responses are shown.

Strategic, purposeful intent

Survey results suggest that to catch up with the value creators, other companies might start by understanding which practices are most closely linked with positive financial impact. According to respondents, value creators exhibit a strategic, purposeful approach that differs from that of other companies in several ways. More than half of respondents at value creators say their company's CEO makes sustainability a priority on the strategic agenda—a significantly greater proportion of respondents than among nonvalue-creating companies (39 percent).

Motives for engaging on sustainability also appear to matter. Respondents at value creators are significantly more likely to say their organizations address sustainability topics to fulfill their organizational purpose—to align with their goals, mission, or values, or to make a tangible, positive impact on an issue. Respondents at other companies, on the other hand, are significantly more likely to say that these organizations are addressing sustainability for other reasons, such as to meet industry norms or standards or to conform with regulatory requirements (Exhibit 2).

Exhibit 2

Companies creating value with sustainability are more likely than others to address the issue for reasons related to their organizational purpose.

Organization's reasons for addressing sustainability topics,[1] % of respondents

[1]All 13 topics that were presented as answer choices. Responses with "don't know," "other," and "not applicable" are not shown here. Total n = 2,475.

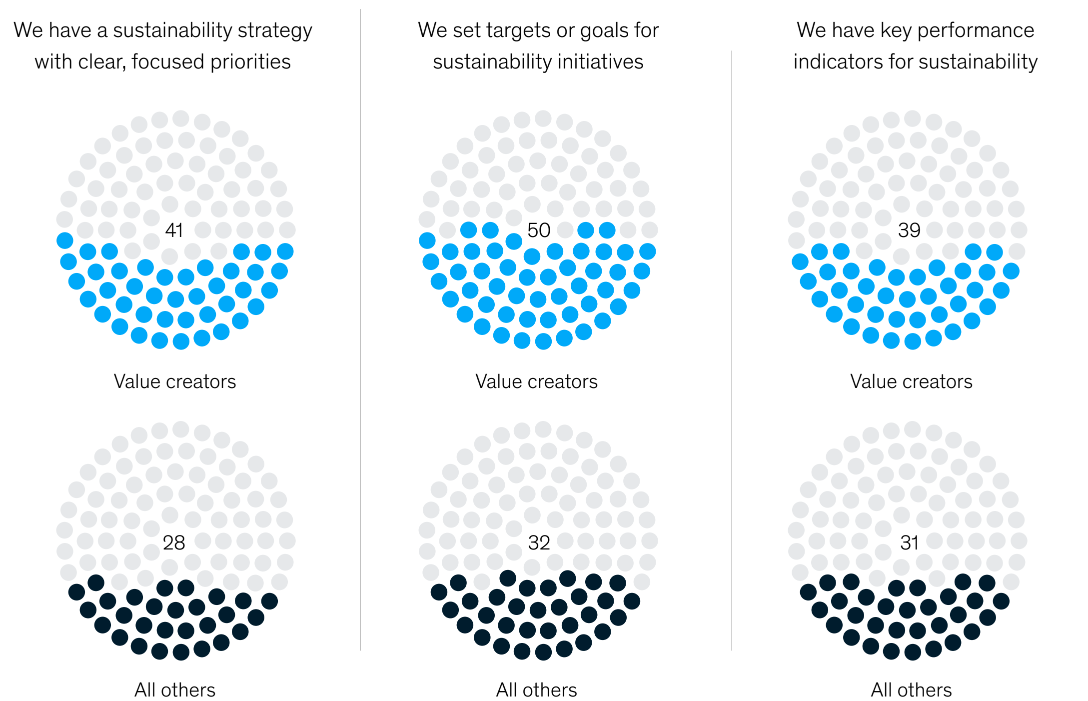
Sharp focus

When it comes to implementing sustainability strategies, value creators place more importance than other companies do on translating the sustainability strategy into definite terms: value creators are significantly more likely to establish clear and focused priorities, set targets or goals, and develop key performance indicators for sustainability (Exhibit 3).

Exhibit 3

Value creators are more likely than others to have sustainability programs with clear priorities, defined targets, and key performance indicators.

Features of the organization's sustainability program,[1] % of respondents



[1]All categories shown here represent statistically significant differences between companies that create value from sustainability and those that don't; n = 2,421.

Value creators are doing more to engage their workforces in sustainability efforts.

Engaging employees

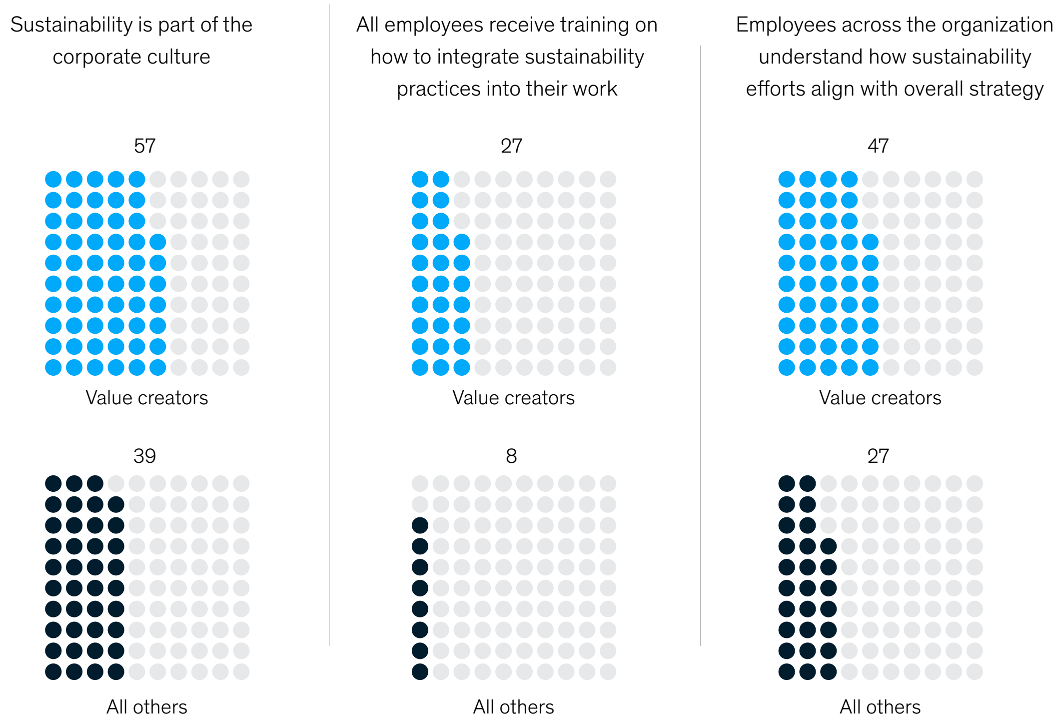
According to respondents, another noteworthy difference between companies that create value from sustainability and those that don't is that value creators are doing more to engage their workforces in sustainability efforts. Nearly three-fifths of respondents at value creators say that sustainability is a part of the corporate culture. A significantly lesser share of respondents at other companies, 39 percent, say the same.

Among the value creators, employee engagement is also a more important element of the sustainability agenda than it is for other companies. A greater share of respondents at value creators say that all employees receive training on integrating sustainability practices into their work and that employees understand how sustainability efforts align with the company's strategy (Exhibit 4). Incentives are another factor: a greater share of respondents at value creators say their organizations consider sustainability performance to a moderate or significant extent when making decisions about employees' compensation.

Exhibit 4

Sustainability is a more significant element of corporate culture and employee engagement at value-creating companies than at others.

Cultural and workforce aspects of the organization's sustainability program,[1] % of respondents



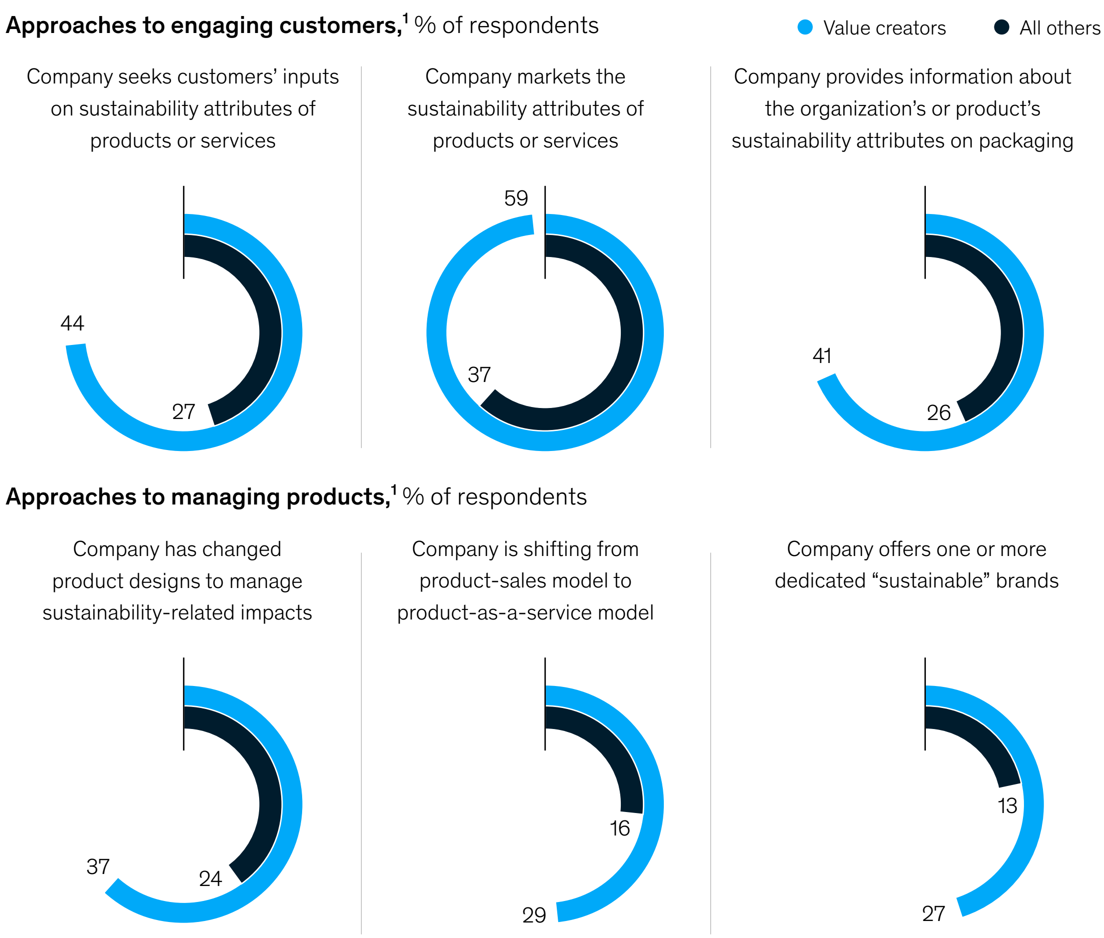
[1]All categories shown here represent statistically significant differences between companies that create value from sustainability and those that don't; n = 2,421.

Meeting customer expectations

Just as value creators engage employees in their sustainability programs, they also put more effort than other companies into understanding customers' expectations and respond with changes to their products. Disproportionate shares of value creators seek customer input on the sustainability attributes of their products and services and highlight those attributes in their marketing efforts. Their orientation toward sustainability issues in customer relations extends to the management of product portfolios: value creators are more likely than other companies to change product designs, develop new product-as-a-service models to address sustainability issues, and offer sustainable brands (Exhibit 5).

Exhibit 5

It's more common for value creators than for others to engage customers on sustainability attributes and update product offerings in response.



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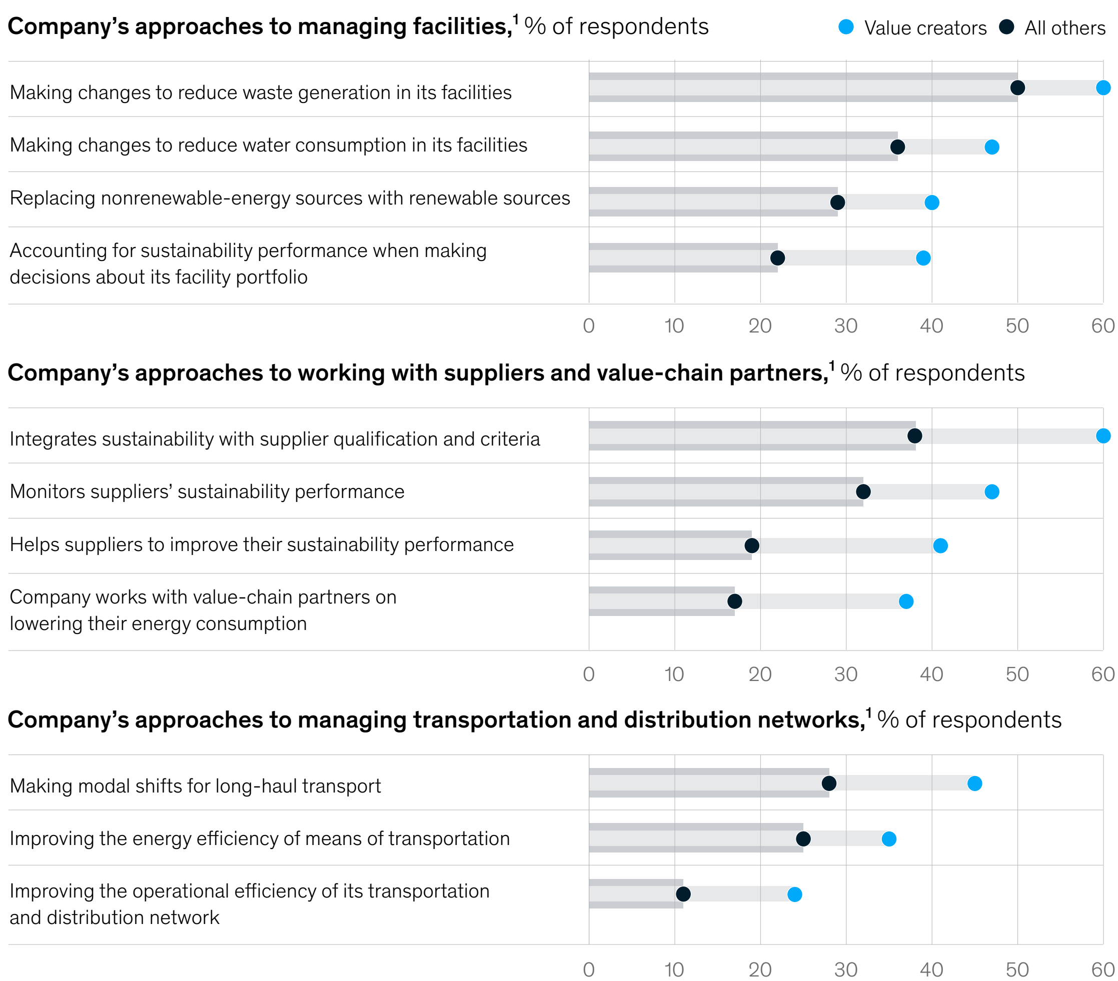
Value-chain collaboration

For most companies, the majority of sustainability impacts result from the activities of their suppliers, contract manufacturers, distributors, and other value-chain partners. Value-chain engagement can thus be a telling indication of how much companies are doing about sustainability—and it's an area where value-creation leaders demonstrate distinctive approaches.

Value-creation leaders are more likely than others to make sustainability a priority in managing energy, water use, and waste generation at their own facilities, as well as making decisions about their site portfolios. They're also more likely to collaborate with and monitor suppliers' sustainability performance and to seek improvements in the efficiency of their transportation and distribution networks (Exhibit 6).

Exhibit 6

Collaboration with the value chain distinguishes value creators' sustainability programs from those of other companies.



[1]All categories shown here represent statistically significant differences between companies that create value from sustainability and those that don't; n = 2,421.

Looking ahead

The survey results highlight practices more widely followed by companies that are creating value from sustainability than by companies that aren't. Experience also suggests that companies with effective sustainability programs tend to plan and manage these programs with the same discipline and commitment that they apply to other business initiatives. Here are a few directional considerations that executives might use to focus their companies' sustainability efforts and derive more value from them:

— *Approach sustainability issues as business opportunities.* Leading companies develop business cases for their sustainability programs based on the value that they stand to create (or protect) through their handling of sustainability issues. They set tangible, concrete aspirations for their sustainability programs and convert those aspirations into quantitative performance targets, which reflect their competitive position, their consumers' expectations, and their investors' demands.

— *Build organization-wide accountability for results.* Product-focused business units, functions such as supply-chain management, and geographic departments are the parts of a company that ordinarily generate most of its sustainability impacts. And unlike the central sustainability team, these departments also have the authority to change day-to-day operations. Recognizing this, savvy executives assign responsibility for sustainability initiatives to heads of functions and divisions and give them related performance targets. In this way, executives can hold senior managers to account for the company's sustainability achievements.

— *Seek impact through collaboration.* While companies can do a lot on their own to improve their sustainability performance, some face challenges that span industries or regions. The problem of plastic waste, for example, bedevils the entire chemicals industry, not just one company. To address these systemic difficulties, companies might form coalitions with industry peers and work together on setting new standards, promoting technological innovation, or advocating for policy shifts. Since value chains produce the majority of the typical company's environmental impact, most companies will also benefit from working closely with their value-chain partners.

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