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United Nations Global Compact

UN Global Compact-Accenture CEO Study

A New Era of Sustainability in the Utilities industry

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Foreword

There has perhaps never been a better moment to contribute to the debate about how, as we look to economic recovery following one of the most tumultuous periods in our history, we can start to rebuild the global economy in a sustainable way.

The timeliness of this study is matched by its breadth. Nearly 1,000 CEOs, business leaders, members of civil society and academic experts have contributed to what is the largest CEO survey on sustainability of its kind to date. The global geographic and industry coverage of contributing CEOs further provided unique insights into the challenges and opportunities of the coming decade.

It is a decade that, CEOs believe, could usher in a new era where sustainability issues are fully integrated into all elements of business and market forces are truly aligned with sustainability outcomes. The survey and conversations conducted as part of this landmark study make clear that today's CEOs are more convinced than ever of the need to embed environmental, social and corporate governance issues within core business. But they are also convinced that good performance on sustainability amounts to good business overall: the imperative to act has shifted from a moral to a business case. Furthermore, executives see significant progress in executing their plans to integrate sustainability.

Many challenges must be faced, however, before market forces can truly be aligned with sustainable development. For example, CEOs see that engaging with the investor community on new terms, improving the provision of education and skills, and measuring a new concept of value within organizations are critical conditions for change. Yet we also see a strong determination on the part of CEOs to take the necessary actions to meet these challenges.

We hope that this first-hand voice of Global Compact CEOs will help to shape the conversation on corporate sustainability over the coming years, and we believe that we can, together, set out a compelling collective vision for the future of the global economy. As we look ahead, we recognize the scale of the challenges that we face—but also recognize the huge potential of the Global Compact as a unique platform for engaging the economy's most powerful force. If that potential is unleashed, we can build the necessary foundations of a new era of sustainability.



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Introduction

Matias Alonso and Peter Lacy

CEOs around the world are starting to see the shape of a new era of sustainability coming into view. In the context of rising global competition, technological change and the most serious economic downturn in nearly a century, corporate commitment to the principles of sustainability remains strong throughout the world: 93 percent of CEOs see sustainability as important to their company's future success. Indeed, in the utilities industry, where environmental issues have long been of fundamental importance, fully 68 percent of CEOs believe that sustainability will be 'very important' to their success—the highest of any industry in our study.

These are some of the most significant findings of a new study from the United Nations Global Compact and Accenture, *A New Era of Sustainability*. The report—based on a survey of 766 United Nations Global Compact (UNGC) member CEOs, in-depth interviews with an additional 50 member CEOs and further interviews with more than 50 business and civil society leaders—represents the largest such study of CEOs ever conducted on the topic of sustainability. The study included a wide sampling of major utilities and energy companies around the world—25 leading executives from 18 countries—including companies such as Enel, Eskom, Iberdrola, National Grid and RWE.

Although the survey of these leading companies cannot claim to be representative of the wider business community, we believe that the insights from those companies committed to integrating environmental, social and governance issues into core business bring a unique perspective, not only on the opportunities provided by sustainability, but also on the scale of the challenge ahead. With this in mind, we have aimed throughout not to advance our own point of view—even where we were ourselves surprised by results—but, wherever possible, to report the 'raw' data, opinions and case studies from the survey and from interviews with CEOs.

While it is clear that CEOs believe strongly in the importance of sustainability, and are committed to integrating environmental, social and governance issues into their day-to-day operations, they see many challenges ahead in truly embedding sustainability into core business. Most immediately, CEOs see challenges internally in managing competing strategic priorities and the complexities of integration. Although many leading companies believe that sustainability issues are already integrated into their strategic thinking, they perceive a greater challenge in embedding these issues into their day-to-day operations, especially through supply chains and subsidiaries.



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Beyond their individual companies, CEOs also believe that much will be required to shape a landscape conducive to more sustainable business. It is readily apparent that uncertainties regarding government regulation, investor interest in sustainability and the relationship with the consumer must be clarified, and that a new debate will be required to articulate new concepts of value and make the case for the benefits that business can bring in meeting societal challenges.

As we look towards the next decade, and new waves of growth, it is clear that CEOs are beginning to recognise the scale of the challenge they face in aligning sustainability with core business, and in creating the environment necessary for sustainable business to prosper. They also recognise, however, that this transition will depend on the economy's most powerful force, business—and that, with immediate and sustained action, individual companies can play a critical role in building the foundations of a more sustainable economy. Nowhere is this more keenly felt than in the utilities industry, and we hope that this is a timely and useful contribution to advancing sustainability in the sector, with a unique insight in the views of CEOs and global leaders on what it will take to reach a new era of sustainability.

A handwritten signature in black ink, appearing to read 'Matias Alonso'.

A handwritten signature in black ink, appearing to read 'Peter Lacy'.

CEO opinion: by the numbers

92%

92% of utilities CEOs believe that sustainability issues will be important to the future success of their business.

88%

88% of utilities CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

56%

56% of utilities CEOs cite 'brand, trust and reputation' as one of the top three factors driving them to take action on sustainability issues.

60%

60% of utilities CEOs identify **governments** as the most **important stakeholder** group that will impact the way they manage societal expectations.

92%

92% of utilities CEOs see **'accurate valuation by investors'** of sustainability as important to reaching a tipping point in sustainability; only **16%** currently see investors as an important stakeholder.

40%

40% of utilities CEOs cite **competing strategic priorities** as the most significant barrier to embedding sustainability.

92%

92% of utilities CEOs see **climate change** as the global development issue most critical to address for the future success of their business.

84%

84% of utilities CEOs believe that companies should **integrate sustainability** through their **supply chain**; only **64%** believe that their company has.

96%

96% of utilities CEOs report that their company will employ **new technologies** to address **sustainability** issues over the next five years.

Executive Summary

The sustainability landscape is changing

Since the last study in 2007, we have witnessed a fundamental change in CEOs' views on sustainability. Business leaders worldwide now see sustainability as central to their business: 92 percent of CEOs in the utilities sector believe that sustainability issues will be important to the future success of their business.

As CEOs perceive ever greater links between business performance and sustainability, it is clear that, across many industries, environmental, social and governance issues are featuring higher on the executive agenda. In our conversations with CEOs, we have seen how sustainability is increasingly seen as a key element in leading companies' responses to core strategic challenges.

After the storm: Rebuilding trust

Demonstrating a visible and authentic commitment to sustainability is especially important to CEOs because it is part of an urgent need to regain and build trust from the public and other key stakeholders, such as consumers and governments—trust that was shaken by the recent global financial crisis. Strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability

issues, identified by 72 percent of CEOs. However, CEOs may assume that their own company is more respected and trusted than their industry in general—leading to a real concern that executives may underestimate the extent to which mistrust in business continues to be an issue in the public mind.

The drivers and approaches to sustainability are changing

The utilities industry arguably occupies a special position in the sustainability debate, at least on environmental issues. In an era when sustainability has been steadily rising up the corporate agenda, environmental issues have long been of fundamental importance to the existence of utilities companies. As the pressures of emissions reduction and resource constraints impact directly upon utilities' core business, questions of water, waste, environmental pollution and community impact are central to their operations. In discussing their motivations for taking action on sustainability, utilities CEOs see governments and communities as key stakeholders, suggesting that leading companies see sustainability issues playing a larger role in shaping perceptions, in securing a licence to operate, innovate and grow, and in creating a competitive advantage in the marketplace.

Challenges to overcome: From strategy to execution

Our study found widespread agreement among CEOs about what a new era of sustainability would look like: it is one where sustainability is not a separate strategic initiative, but something fully integrated into the strategy and operations of a company. CEOs believe that execution is now the real challenge to bringing about the new era of sustainability. Confidence among business leaders about their progress towards this new era is strong, and their companies are taking concrete steps towards embedded sustainability. Eighty-one percent of CEOs—compared to just 50 percent in 2007—stated that sustainability issues are now fully embedded into the strategy and operations of their company, although our conversations suggest that this may be interpreted as overconfidence, or a lack of understanding of what full integration really entails.

While sustainability has clearly become part and parcel of how many businesses operate, it has yet to permeate all elements of core business—that is, into capabilities, processes and systems. In particular, the difficulty of implementation, especially across supply chains and subsidiaries, is seen by CEOs as the top barrier to the full integration of sustainability. Our research finds a significant

gap between those CEOs who agree that sustainability should be embedded throughout their subsidiaries (91 percent) and supply chain (88 percent), and those who report their company is already doing so (59 percent and 54 percent, respectively). Furthermore, full integration of sustainability into performance management frameworks and approaches to training and development remains some way off.

Ensuring the right external conditions

How long will it take before the majority of companies worldwide reach this new era in which sustainability is fully integrated across their global business footprint? Fifty-four percent of CEOs surveyed feel that this tipping point is only a decade away, and 80 percent believe it will occur within 15 years: an optimistic view perhaps unthinkable in 2007 and testament to the change taking place.

CEOs acknowledge that a new generation of leadership, and concerted efforts to shape a corporate culture supportive of the goals of sustainability, must underpin success in the new era. In other words, today's business environment provides a multitude of new challenges to manage, but also significant opportunities for those who can master its dynamics.

However, CEOs see that progress towards that destination is by no means guaranteed, or irreversible, and will require them to overcome several serious challenges, both through their own actions and in collaboration with stakeholders. These challenges include:

- **Regulatory uncertainty:** Across the board, CEOs spoke of the need for greater clarity around the shape and scope of future regulation in response to regulatory challenges.
- **Investor uncertainty:** Many CEOs believe that the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor performance on sustainability issues into valuation models.
- **Consumer uncertainty:** The consumer may be king when it comes to driving profitable sustainability, but the CEOs surveyed are looking for clearer signals that sustainability actually influences buying behaviors. Similarly, they are unclear as to the extent to which sustainability concerns will drive purchasing decisions by businesses and governments.

Accelerating the tipping point: Business action is needed

In order to overcome these challenges and accelerate a tipping point in the integration of sustainability into core business, CEOs believe that a number of 'must-have' conditions need to be put in place. Businesses need to take a leadership role to bring them about, often in collaboration with wider stakeholders such as the UN Global Compact:

1. **Creating a clearer and more positive regulatory environment for sustainability.** To avoid the unintended consequences of regulation, build trust and provide a more informed basis for policymaking, businesses should adopt a more proactive and collaborative approach with governments to seek out genuine opportunities for business and societal benefit.
2. **Generating new knowledge, skills and mindsets for sustainable development.** Although businesses believe that formal educational institutions and business schools need to do more, CEOs also recognize the need to increase their own efforts to engender the right skills and mindsets in their managers and future leaders.



3. Leading the creation of an investment environment more favorable to sustainable business. CEOs need to be more proactive in engaging with investors to ensure that the value of sustainability activities can be demonstrated through traditional metrics such as cost reduction and revenue growth.

4. Embedding new concepts of value and performance at the organizational and individual levels. Businesses will need to measure both positive and negative impacts of business on society, track and manage sustainability's impact on core business drivers and metrics, and embed sustainability in individual performance frameworks for employees across their organizations (e.g., through remuneration packages).

5. Actively shaping consumer and customer awareness, attitudes and needs. To create a market for sustainable products and services, CEOs see the need to increase the provision of consumer information and set clear standards, as well as direct government incentives and investment in areas such as energy, transport and public infrastructure.

CEOs of the world's leading companies are willing to step up to the challenges ahead, and they recognize that—as the Global Compact celebrates its tenth anniversary—this is 'the end of the beginning' and not 'the beginning of the end' in the transition to a new era of sustainability.

Part One

Background and industry context

In the course of our survey and conversations with CEOs, we have witnessed a fundamental shift since the last Global Compact study in 2007. Then, for many industries, sustainability was just emerging on the periphery of business issues, an increasing concern that was beginning to reshape the rules of competition. Three years later, sustainability is truly top-of-mind for CEOs around the world. While environmental, social and governance challenges continue to grow and CEOs wrestle with competing strategic priorities, sustainable business practices and products are opening up new markets and sources of demand, driving new business models and sources of innovation, changing industry cost structures, and beginning to permeate business from corporate strategy to all elements of operations.

The utilities industry arguably occupies a special position in the sustainability debate, at least on environmental issues. In an era when sustainability has been steadily rising up the corporate agenda, environmental issues have long been of fundamental importance to the existence of utilities companies. As the pressures of emissions reduction and resource constraints impact directly upon utilities' core business, questions of water, waste, environmental pollution and community impact are central to their operations. One of the clearest insights from our conversations with CEOs, however, is that the scope of sustainability is broadening to encompass wider issues around human rights, labour standards and anti-corruption, which, while not of such historic importance to utilities, may play an ever-greater role in determining future success.

Beyond the industry's traditional concerns of emissions reduction and climate change, it is clear that sustainability concerns are beginning to permeate every aspect of business – when one looks at the impact of environmental, social and governance issues on the key strategic challenges faced by the industry, it is readily apparent why CEOs attach such importance to sustainability:

- **Government and regulatory pressures:** The utilities industry is one of the most regulated in the world. The clarity of the future regulatory landscape is a critical element in strategic planning for utilities companies, and the impact of governmental intervention can be fundamental to their success.

The prospect of government intervention—stringent regulations on carbon emissions, for example—may threaten the viability of utilities that are heavily dependent on coal-burning technologies, and may introduce uncertainty into decisions around capital allocation, especially in regard to investments in renewable technologies.

Additionally, because rate increases involve a lengthy process of regulatory approval, innovation in new technologies can sometimes be restricted by companies' access to capital. At the same time, stressed public finances will place an onus on companies to articulate a demonstrable business case for the return on investment of new infrastructure projects.

- **Carbon regulation and trading:** Before Copenhagen, anticipation was high about a binding global agreement on climate change being put in place. Such a development never materialized, but even in the wake of Cancún and the slowing pace of international agreement, the transition towards a low-carbon economy is still high on the agenda of many countries. The increase in carbon regulation and the proliferation of carbon markets has had a profound impact on the operations and viability of utilities companies: the disruptive impact of carbon pricing on generation assets is forcing utilities to reassess their asset portfolios and plans for growth.

- **Resource scarcity and commodity volatility:** The ability of companies to invest in the transition towards sustainable operations and services depends on financial stability and confident forecasting—something that can be difficult to achieve for utilities dependent on commodities such as oil, natural gas and coal, whose prices can fluctuate significantly. In this uncertain environment, security and diversification of supply will become increasingly important not just for sustainability objectives, but to ensure the future financial stability of utilities companies.

- **Infrastructure investment and advanced technologies:** Over the last decade, many technological developments have arisen, among them smart grid technologies, emission reduction technologies and advances in renewable energy. These developments hold great promise for reducing utilities' carbon footprint, and creating a role for utilities companies in aiding the transition towards sustainable growth. Placing the right bets on new technologies will play a crucial role not only in meeting national and international carbon reduction targets, but in determining industry winners and losers.

- **The rise of 'smart' infrastructure and Intelligent Cities:** The demands of a resource constrained planet—and the expectations of people with regard to the sustainability of the environment in which they live—are driving change and the requirement for new levels of efficiency and innovation. Emerging market cities are growing at a tremendous pace and many are looking to leapfrog to new models; while in the developed world the requirements for integration, connectedness and adaptability need to be retrofitted on legacy infrastructures. The combination of technology intelligently applied to clear strategic intents can transform and accelerate progress towards the vision of sustainable development, creating huge opportunities for utilities companies that can adapt to new demand and the 'smart' imperative.¹

- **Consumer relations:** Because the retail end of the utilities industry can be both regulated or competitive, the nature of customer interaction is different for certain utilities than for industry peers or more consumer-oriented businesses. Nevertheless, nurturing good relationships with consumers will be critical to maintaining a productive business environment, fulfilling regulatory requirements to promote energy efficiency, and overcoming the challenges of uncertain demand for sustainable products and services, particularly when these may involve higher bills or an increase in data collection through smart technologies.

- **Health, safety and security:** Safety remains top-of-mind for companies in the energy and utility sectors, particularly in the aftermath of recent events impacting major industry players. Updating ageing infrastructures and ensuring the safety of new investments is an ongoing concern for utilities executives, and will remain at the centre of operations.

As CEOs perceive ever greater links between business performance and sustainability, it is clear that environmental, social and governance issues are featuring higher on the executive agenda, and that there is a widespread belief that integrating these issues into core business and investment decisions will be critical to future success.

Part Two

Sustainability and Utilities: Through the eyes of the CEO

Utilities CEOs' belief in the importance of sustainability is stronger than ever, in spite of the recent economic downturn

CEOs' belief in the importance of sustainability is strong within the utilities industry. Ninety-two percent of the executives surveyed believe that sustainability issues will be either 'important' or 'very important' to their future success. Looking deeper into the numbers, support for sustainability can be seen to be particularly strong in the utilities sector: 68 percent of utilities CEOs, compared to the global average of 54 percent, stated that sustainability issues are 'very important' to their future success.

The global economic downturn might have been expected to weaken the commitment to sustainability issues. In fact, it seems to have done the opposite: 88 percent of utilities CEOs believe the downturn has raised the importance of sustainability as a leadership issue for top management, and just 20 percent of utilities CEOs report that their company has reduced investment in sustainability as a result of the downturn. These responses, together with our conversations with CEOs, build a clear picture of a sustainability agenda more closely aligned with core business, as the 'perfect storm' of financial pressures, resource scarcity and growing calls for corporate responsibility has prompted leading companies to redouble their efforts to find new and innovative solutions to the challenges that they face, and to search ever harder for those initiatives which deliver against both sustainability and financial objectives.

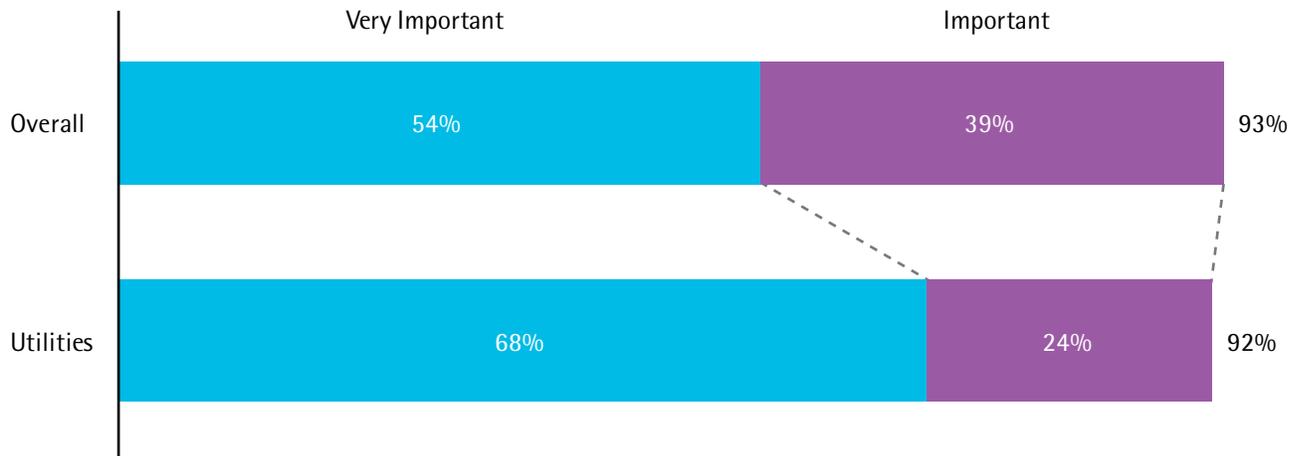
Utilities CEOs emphasize distinctive facets of the sustainability agenda

It is clear from our conversations with CEOs that they recognise the importance of sustainability as a disruptive trend in the industry—but what do they mean by 'sustainability,' and which issues are uppermost in their minds? The scope of sustainability varies significantly by industry, often driven by those environmental, social and governance issues on which the industry has greatest impact.

In utilities, CEOs join their peers from other industries in affirming climate change and education as the two most important development issues for their business. Indeed, climate change, as could be expected, was named as the primary development issue by 92 percent of utilities CEOs, far above the survey average of 66 percent. In addition, the issue of access to clean water and sanitation was named as a principal concern by 40 percent of utilities executives, compared with only 26 percent among all industries surveyed, reflecting not only its importance to water utilities themselves, but also the integrated nature of the water and energy challenges, through the critical role of water in power generation.

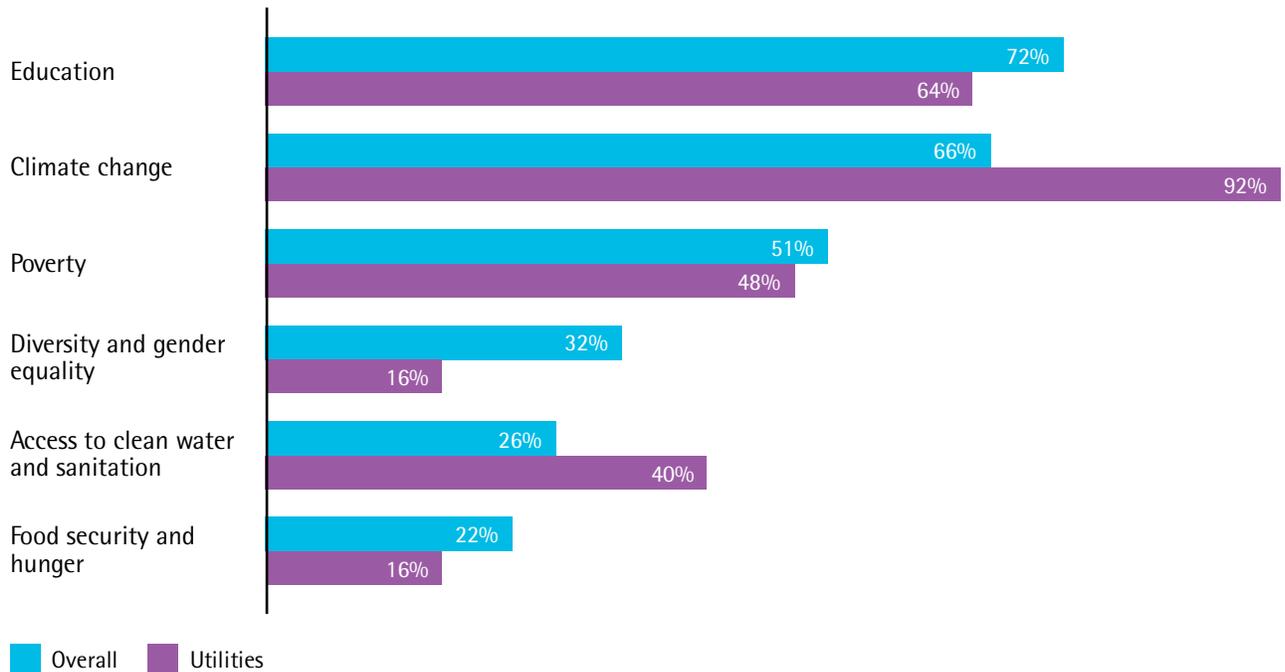
These responses demonstrate the close relationship between sustainability and development issues and the core business of utilities companies: responses to climate change and water pressures, by both business and governments, will play an integral part in shaping the industry landscape for utilities companies.

Figure 2.1: How important are sustainability issues to the future success of your business? (Respondents answering 'Important' or 'Very important')



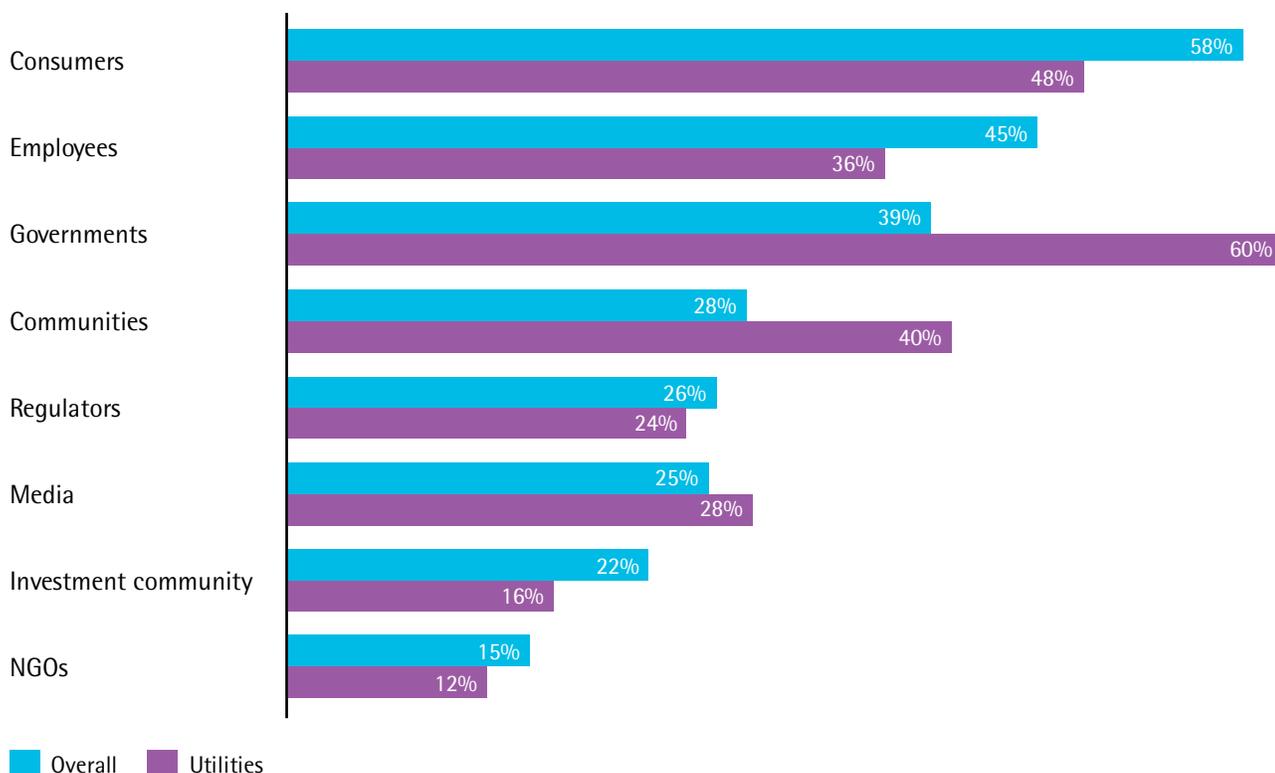
Source: United Nations Global Compact–Accenture CEO Study 2010 (based on 766 completed responses)

Figure 2.2: Which of the following development issues are the most critical to address for the future success of your business? (Respondents answering 'Important' or 'Very important')



Source: United Nations Global Compact–Accenture CEO Study 2010 (based on 766 completed responses)

Figure 2.3: Over the next five years, which stakeholders will have the greatest impact on the way you manage societal expectations? (Respondents identifying each factor in their top three choices; top selections)



Source: United Nations Global Compact–Accenture CEO Study 2010 (based on 766 completed responses)

The stakeholders believed to be most critical by utilities also differed, perhaps not surprisingly, from peers in other industries. For 60 percent of utilities CEOs, governments are the primary stakeholders influencing the sustainability agenda, compared with only 39 percent among other industry executives. The importance of the role of governments and regulators in driving sustainability in the utilities sector is clear from our conversations with CEOs: while sustainability has long been a key strategic priority for utilities executives, they see a critical role for governments in enabling their companies to make further progress in embedding sustainability into core business, through the clarity and consistency of regulation, and in providing the right investment incentives for utilities to aid the transition towards a low-carbon economy.

Communities were also mentioned as important stakeholders by a higher percentage of utilities CEOs (40 percent) compared to other organizations (28 percent), reflecting the importance of community relationships for energy and utilities companies, in issues ranging from securing a license to operate to local planning consent. This belief in the importance of communities was reflected by Paolo Scaroni, CEO of Eni S.p.A: "I strongly believe that our success depends on our capability to provide long lasting benefits to the communities which host us."

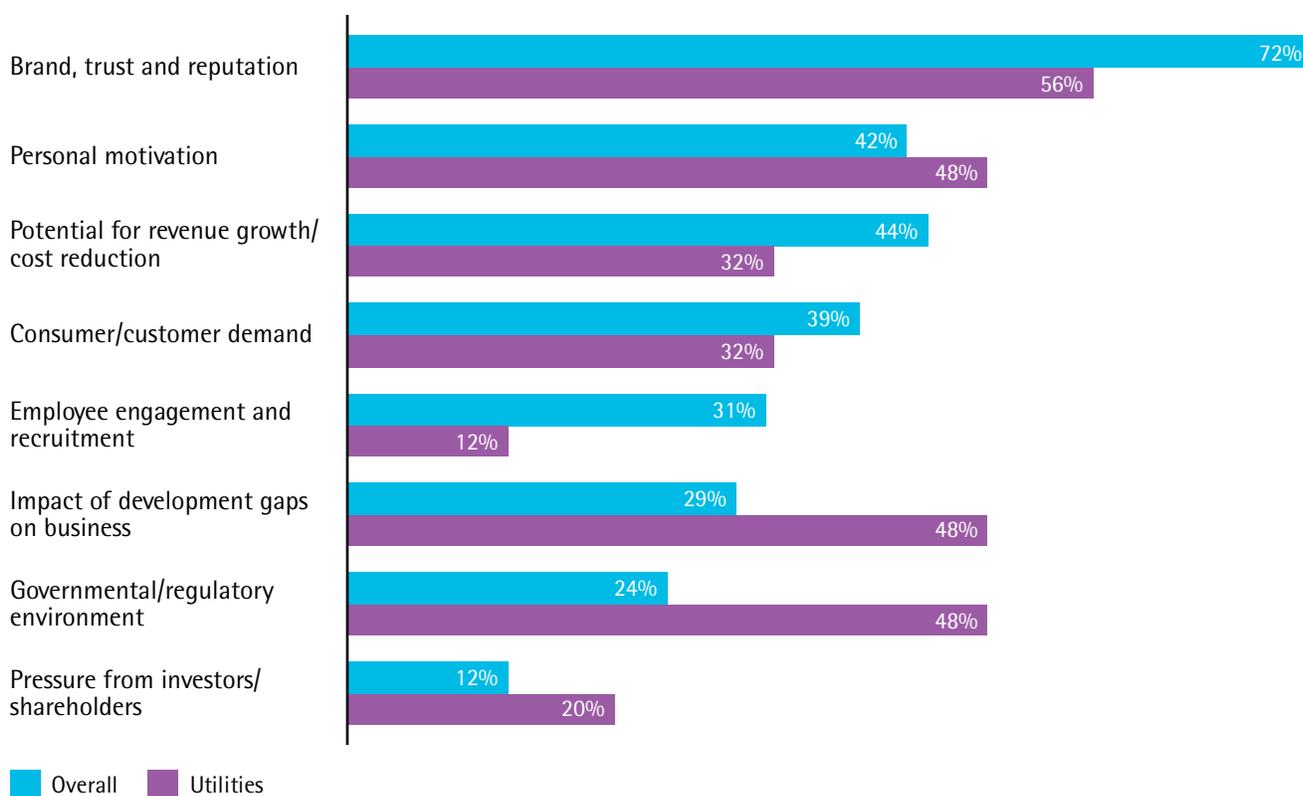
The importance of governments and communities for the utilities sector is a clear indication of the ongoing battle for trust in business. CEOs are acutely aware that consumers' trust in business has been damaged by the economic downturn, and companies are more eager than ever to regain that trust by engaging in more socially responsible business, and engaging more closely with consumers and stakeholders.² According to Steve Holliday, CEO of National Grid, "we're moving towards a higher level of obligation on business to explain things".

Motivating factors and opportunities

What are the primary motivators in moving sustainability up the list of strategic priorities in the utilities industry? Utilities CEOs see enhanced reputation, an improved regulatory environment and the need to close development gaps as the greatest opportunities offered by sustainability. One can see important differences in these motivating factors by comparing the concerns of utilities with other types of businesses.

For example, 'brand, trust and reputation' was named by 72 percent of all executives surveyed as an important factor, compared with only 56 percent among utilities CEOs. However, it is striking that a majority of utilities, many of whom are in monopoly positions, cited the reputational dimension of sustainability, indicating a growing awareness

Figure 2.4: Which factors have driven you, as a CEO, to take action on sustainability issues? (Respondents selecting each option as one of their top three choices)



Source: United Nations Global Compact–Accenture CEO Study 2010 (based on 766 completed responses)

of the industry’s impact on the communities in which it operates, and the impact of sustainable business operations on community perceptions.

A number of other differences stand out. For example, nearly half (48 percent) of utilities CEOs cited the impact of development gaps on business and government/regulatory issues as motivating factors; those issues were cited by only 29 percent and 24 percent, respectively, of executives from other industries. The greater importance of development gaps and the regulatory environment for utilities companies reflects the perceived importance of sustainability issues in creating a conducive environment in which to operate: without local infrastructure and supportive local authorities, utilities cannot operate effectively, and as public consciousness of sustainability issues grows, corporate action on sustainability is becoming ever more important to companies’ licence to operate.

Sustainability strategies aligned with business strategies

Signs of the importance of sustainability issues to utilities companies can be seen in several data points from the UNGC–Accenture study. For example, 84 percent of utilities CEOs believe that the downturn has prompted them to better align sustainability with core business—even higher than the global average of 74 percent.

During this time of economic hardship, businesses have been forced to closely examine how their sustainability activity delivers hard business value, measured in terms such as revenue growth and cost reduction. One-third of utilities executives—and 44 percent of all CEOs surveyed—cited revenue growth and cost reduction as motivating factors in developing a sustainability strategy, an indication that the perception of sustainability’s business value is changing in many respects.

For example, for some utilities in the United States, the traditional method of rate recovery based on the amount of electricity/gas sold in a year has been modified to encourage energy efficiency. This decoupling of sales from revenue may provide the necessary financial incentives for utilities to encourage their customers to use less energy. This decoupling may also be a contributing factor to helping utilities take the longer-term view that sustainability requires. This view was in evidence in several of our executive interviews. For example, according to Wolfgang Rutenstorfer, CEO of OMV Aktiengesellschaft, “I regard [sustainability] issues as bringing competitive advantage in the long-term. In the short-term, perhaps we are not rewarded, but a transparent approach clearly oriented towards our values, human rights and environmental objectives is the only right approach that will be appreciated in the long term.”

And, according to Steve Lennon, Managing Director of Eskom, a more holistic and comprehensive approach is also necessary. "Industry has never truly grasped that sustainability is about the totality of your business," Lennon said. "It's about your financial performance, your environmental performance, your social performance and your impact on the economy in which you operate."

A new era: Embedded sustainability

The CEOs in the UNGC-Accenture study were also in agreement on what a truly business-oriented approach to sustainability in a new era would look like: it is one in which sustainability is not simply one among many programs, but rather is fully embedded across a company's global footprint.

A strikingly high proportion of utilities executives believe in this integrated approach. Ninety-six percent of Global Compact CEOs from the utilities industry believe, for example, that sustainability issues and approaches should be fully integrated into their core business strategy; this represents significant progress from the previous study in 2007, when only 72 percent of CEOs felt this way. Eighty-eight percent of utilities CEOs believe sustainability should be embedded into their strategy and operations, as well as operations of subsidiaries; 84 percent believe in embedding sustainability throughout their global supply chains.

These numbers represent admirable aspirations; but how effective are utilities at this approach to embedded sustainability in practice? Responses suggest that utilities CEOs believe that they may be ahead of the curve in terms of integrating sustainability into core business practices and operations. For example, 84 percent of utilities CEOs—compared to just 50 percent in 2007—stated that sustainability issues are already fully embedded into the strategy and operations of their company. Our conversations with CEOs on the challenges of integration suggests that this may represent a degree of overconfidence on the part of CEOs, or an underappreciation of what it means to 'fully integrate' sustainability issues throughout a company's strategy and operations, but there are encouraging signs when examining integration in more detail: 84 percent of the utilities executives stated that their company is already embedding metrics to track performance of activities against sustainability outcomes, compared to a global average of 64 percent among cross-industry CEOs.



Reaching a tipping point

How long will it take before the majority of companies worldwide reach a new era in which sustainability is fully integrated across their global business footprint? Forty-four percent of utilities CEOs surveyed feel that this tipping point will be reached within ten years—a somewhat more pessimistic view than that expressed by all executives surveyed, 54 percent of whom believe the tipping point is less than a decade away. Nevertheless, this expected time horizon represents an optimistic viewpoint that would have been almost unthinkable at the time of the last study in 2007.

What factors will contribute to reaching that tipping point? High percentages of utilities CEOs (96 percent) believe that the most important factors are:

- Governments providing clearer direction and support for sustainability
- Consumers demanding more sustainable products and services

- Education systems and business schools capable of training a new generation of leadership to plan and manage sustainable businesses

As this overview of the current state of the industry has shown, the mindsets of utilities CEOs are converging on a common understanding of the importance of sustainability. A majority of CEOs now believe that sustainability should be embedded within core business—but significant challenges lie ahead in making that vision a reality.

Part Three

Making progress: From strategy to execution

The challenges ahead: Closing the performance gaps

CEOs are aware that, for the most part, truly embedded sustainability is a vision of the future, not a description of the operations and strategy of most companies today. Put most simply, the challenge in reaching a new era is one of execution. Although, as we have seen, the support for sustainability among CEOs in the utilities industry is nearly universal, these executives see a significant challenge in executing a sustainability strategy. Our study found a significant performance gap between what CEOs believe companies should be doing, and what they report on their own company's performance. While considerable progress has been made since 2007, the shift in mindsets towards widespread recognition of the sustainability imperative has raised the bar when it comes to execution.

Eighty-eight percent of utilities CEOs believe that sustainability should be integrated into a company's subsidiaries, but only 72 percent believe that they have achieved such integration. Similarly, 84 percent of the executives surveyed believe that sustainability should be embedded throughout the global supply chain, yet only 64 percent are confident they have achieved that kind of scope.

In closing these performance gaps, and matching their undoubted ambition with execution, CEOs see both internal and external challenges.

Internal challenges

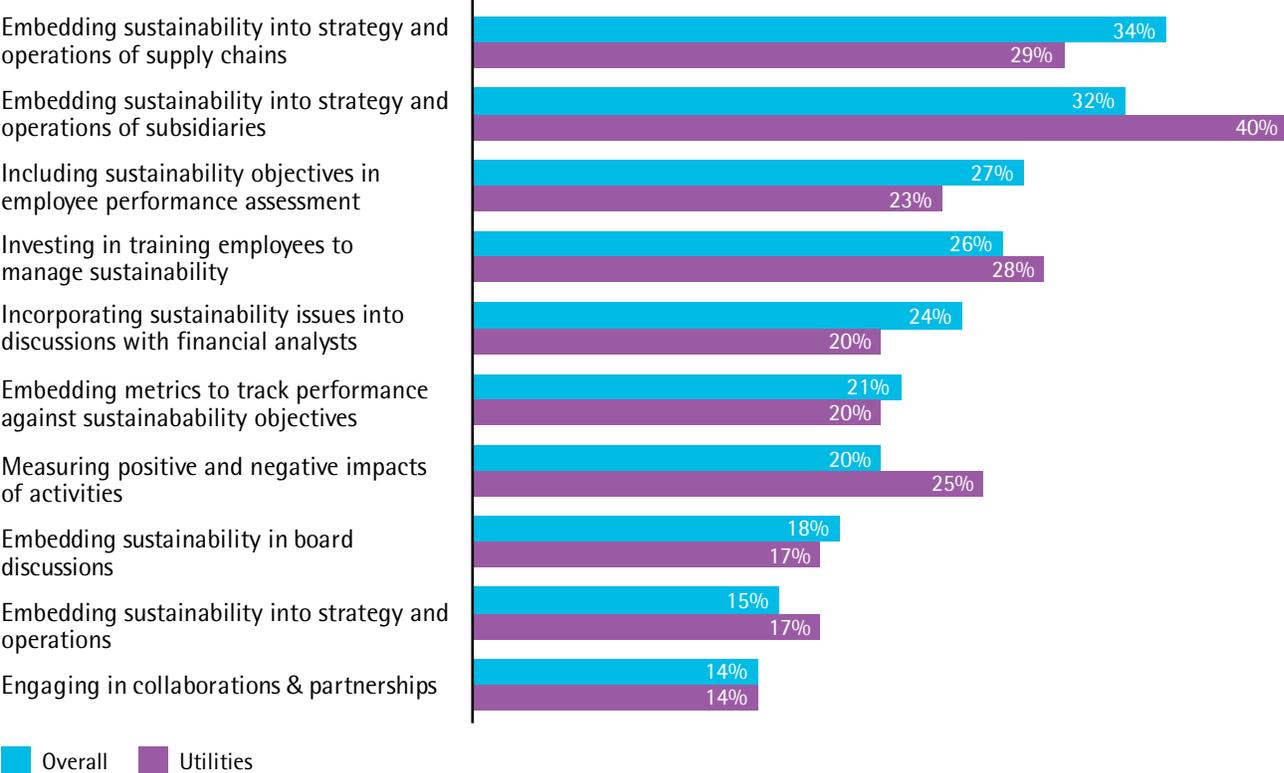
CEOs face a number of internal challenges to executing a strategy that embeds sustainability across the business: in the words of one emerging-market CEO, "currently, the burning issue is how to better incorporate sustainability into daily practice." Foremost among these challenges are the need to balance and prioritise multiple objectives and initiatives, and to push sustainability principles across companies' broader footprint of supply chains and subsidiaries.

Competing strategic priorities

Forty percent of utilities CEOs report that competing strategic priorities are currently a significant barrier to successfully embedding sustainability (see figure 3.2). This highlights the challenges in reconciling the need to take a long-term perspective on sustainability issues with a turbulent market environment that often forces companies to make decisions based on near-term pressures. As Steve Lennon, Managing Director of Eskom's Corporate Services division, put it, "It's a challenge when an organization has its back to the wall, when it's fighting fires, to continually remind yourself that you're in a long-term business and that you cannot forget to deal with these matters on a long-term basis."

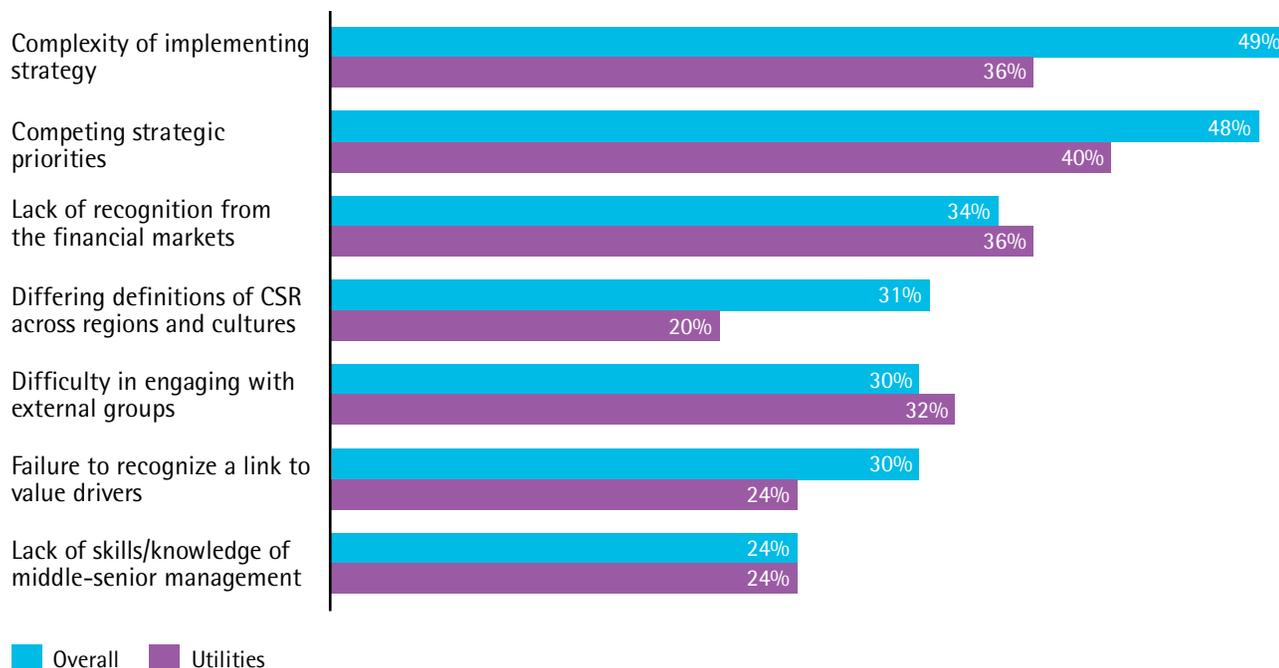
So although there is widespread belief in the strategic importance of sustainability issues among CEOs, executives are still struggling to address them as an integral part

Figure 3.1: Performance Gaps between 'companies should' and 'my company does' (Selected performance gaps)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

Figure 3.2: Which barriers keep you, as a CEO, from implementing an integrated and strategic approach to sustainability? (Respondents identifying each factor in their top three choices)



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

of core business. "It is not surprising that CEOs highlight competing strategic priorities as a major barrier," said one European business leader. "It shows that sustainability is not yet embedded across all of their priorities." This observation bears witness to the fact that for many businesses, sustainability is still regarded as a separate or discrete strategy in itself, rather than being truly embedded across all corporate and functional strategies and business plans.

Managing complexity

CEOs report that another significant barrier to an integrated, company-wide approach to sustainability is the complexity that accompanies implementation across different functions. Thirty-six percent of utilities CEOs say such integration is their primary obstacle.

Rising concerns about complexity demonstrate how CEOs are shifting their sustainability focus from strategy-setting to execution. Of particular issue for many of the CEOs we spoke with was the challenge of ensuring a consistent, company-wide approach across large and increasingly complex supply chains as well as subsidiaries.

People and performance

Performance gaps are also apparent with regard to the capabilities and assessment of employees. Eighty-six percent

of utilities CEOs recognize the need to invest in enhanced training of managers to address sustainability issues—but only 60 percent report that their company already does so.

The transition from employees' acknowledgement of the importance of sustainability to the point at which such issues are incorporated in their day-to-day work will be a further challenge. Such a shift may be supported by the incorporation of sustainability objectives into employee performance assessments. Building the capabilities of employees, and embedding sustainability metrics in performance assessment, will be a critical step in the journey towards integrated sustainability—but will require concerted efforts to meet CEOs' levels of ambition.

External challenges

In addition to overcoming the internal challenges of integration, CEOs also believe that there are a number of barriers in the external environment that are preventing them from adopting a more integrated approach to sustainability. The most prominent of these, based on our discussions, relate to the role of governments, regulators, investors and consumers.

Achieving more regulatory certainty

Ongoing, perhaps even growing, uncertainty over the future direction of energy policy and regulation is seen by industry CEOs as a critical barrier to further progress in embedding sustainability into core business. Investment decisions, capital allocation and strategic planning are all made more complex by the lack of clarity around government regulation, and global inconsistencies present significant challenges, especially to those companies operating in competitive markets. In the words of Ignacio Galán, Chairman & CEO of Iberdrola, "We want regulation to be stable and predictable.... Regulation should defend competition and market freedom, and at the same time should promote energy efficiency, renewable energy and ensure tariffs are sufficient for the activities concerned."

Despite CEOs' acknowledgement of the importance of sustainability to their companies, many believe that the action they feel to be necessary, and the levels of investment required, will not be possible without clearer national, regional and international policy, translated into law in order to accelerate the transition towards a low-carbon economy. With this in mind, 72 percent of utilities CEOs would welcome increased government intervention in the market to drive sustainability, more than the global average of 60 percent.

It is clear from our conversations, though, that government action should follow long-term, consistent energy policy in order to create a predictable future landscape in which companies can confidently invest. Debates in Germany, for example, around policy support for solar and nuclear power, demonstrate the risks that utilities companies face in investing in renewable energy, and the risk that overconfident investment could lead to stranded assets. CEOs believe that such uncertainty is currently slowing the pace of innovation and transition, particularly for those companies faced with competitive market pressures, who are being nudged towards a low-carbon future without the necessary support from governments and regulators.

Accenture's recent research with Barclays on the growth of low-carbon technologies in Europe over the coming decade suggests that €2.9 trillion will be required to finance the development and roll-out of new technology. While leading financial institutions can play a key role in mobilizing this capital, uncertain policy frameworks and technology risks are increasing the difficulty of investing in low carbon technology. In order to tackle climate change and transition towards a low-carbon economy, CEOs believe that the utilities industry in particular will require clear and consistent policy frameworks to help unlock the required flow of private capital.³

Engaging the investor community

It appears that mainstream investors are at present a predominantly absent, if critical, part of the sustainability picture. In our conversations with CEOs, a common refrain related to the lack of interest in sustainability activities from investors and analysts, beyond very occasional requests from the socially responsible investment community. As one business leader put it, "Investors talk a good game about investing in sustainable business, but that potential has yet to be realized."

Perhaps reflecting this attitude, only 16 percent of utilities CEOs identify the investor community as one of their most influential stakeholders over the next three years. Most believed that, even if sustainability performance were tracked and measured at a corporate level, the investor community is not interested or prepared to factor these metrics into their valuation models. There is another side to this story, however. In the words of Edemir Pinto, CEO of the Brazilian stock exchange BM&FBovespa, "Business may complain that investors do not value their sustainability activities, but they need to tell investors what they're doing." Meeting this challenge will require more consistent and sophisticated approaches to sustainability performance management, as well as new efforts to measure and articulate the contribution of sustainability to financial performance and long-term success.

Understanding consumer and customer demand

About half of utilities CEOs (48 percent) consider consumers, business-to-business and government customers to be key drivers of change. However, a critical question on the minds of CEOs today is to what extent consumers are prepared to accept the trade-offs of potentially higher prices, or the collection of personal data through smart metering, in exchange for more sustainable energy and water supply. One recent Accenture research study, based on surveys of more than 9,000 consumers in the energy sector, highlighted that although the vast majority of consumers would be prepared to switch energy providers if they offered products and services that helped to reduce carbon emissions, most would also demand savings on their bills.⁴

Consumer education and communication with regard to sustainability will be key to success. Sustainability metrics are hard for the consumer to interpret and contextualize, and companies will be expected to demonstrate relevant and tangible personal benefits to the individual consumer: cost savings, local employment and reduced carbon emissions, for example.



A final overarching challenge is how utilities are to solve the apparent paradox between their belief in the importance of sustainability – and a move towards lower energy consumption – and their primary business purpose in encouraging people to consume their product and service offerings.

From our conversations with CEOs, it is apparent that there is both a belief in the importance of sustainability to future business success, and a determination to integrate sustainability objectives into core business. CEOs' belief in the centrality of sustainability means that their companies are beginning to take real, innovative action to set their companies on the road to a new era of sustainability—but they recognise that the journey will be long and complex, and they will have to overcome a series of challenges, both internal and external, in order to reach a tipping point where sustainability is truly embedded in companies worldwide.

Part Four

Pioneers of the new era

The future will not be created based only on good ideas or by regulatory fiat, but rather by the innovations of real companies pushing the boundaries of what is possible. The innovations of sustainability pioneers in the utilities industry show companies meeting the key challenges of the industry through explicit programs aimed at embedding sustainability into every aspect of business. These instances, in which companies are finding the meeting-point between business and societal value, can give us a piece-by-piece picture of what a high-performing company might look like if the industry can overcome the challenges of integration, and shape the conditions that will be conducive to more sustainable companies operating in a more sustainable economy.

Diversification of supply and transition to renewables

Resource constraints and the volatility of commodity prices, especially for gas and coal, present a significant challenge to utilities companies. In the words of Steve Lennon of Eskom, "We have to get used to working, living and operating in a resource-constrained environment. The population is increasing dramatically, so the whole process of resource efficiency will be a very important driver in the future."

To cope with this situation, several industry pioneers we spoke with are piloting important renewable energy programs. For example, when Eskom, the South African utilities company, decided to increase the proportion of renewable energy of its generation mix, it was responding to the pressures brought about by climate change and the future resource constraints that threaten its long-term growth. It was also acknowledging, at the same time, a significant opportunity to lead in a growth market. Traditionally a coal-dominated utility, Eskom is now increasingly emphasizing renewables in its strategy with the aim of reducing the amount of coal in its generation mix from the current 88 percent to 70 percent by 2025. In particular, it is investing heavily in concentrated solar power and wind farms with the help of a recent US\$750 million loan from the World Bank, allocated for renewable and energy efficiency projects.⁵

Iberdrola, the second largest utility in Spain and one of the largest utilities in Europe, is another industry innovator. The company has put a major focus on being the world leader in developing renewable energy projects. In 2004, the CEO made the decision to put sustainability at the core of Iberdrola's strategy. The Spanish utility sector was a large producer of greenhouse gas emissions at a

time when green energy was being promoted and the energy sector itself was being liberalized. The CEO saw this as a window of opportunity—the chance to make Iberdrola a world-leading green utility company. Two years after implementation of its new strategic plan, Iberdrola could already see the impact of renewable energies and combined cycle plants on its bottom line.⁶

Advanced technologies

Utility companies are acutely aware of the potential of new technologies as a way to cut costs, drive growth, and achieve emissions reductions. In China, for example, utility companies are looking to invest heavily in advanced technologies and renewable energy. China, one of the world's fastest-growing energy markets, invested almost twice as much as the US in clean energy during 2009, and investment in wind power during the third quarter of 2010 accounted for nearly half the world's wind investment.⁷

For more traditional players, a gradual shift towards the integration of new technologies is taking place, particularly through the greater use of renewable energy in power generation. For example, OMV, an Austrian-based integrated oil and gas company, is facing a highly challenging business environment involving volatile oil prices.

The company is following a three-fold strategy to help reduce its carbon footprint and ensure a secure energy supply. First, its current core business of supplying fossil fuels is conducted in the most environmentally responsible and climate-friendly way possible. Second, the company is developing carbon capture and storage (CCS) technologies and projects as an interim solution as it seeks to pursue renewable energy sources.

Finally, OMV is actively expanding its renewable energy activities. One way the company is supporting this work is by launching The Future Energy Fund, an organization that promotes the development of new business opportunities and technologies for OMV in the renewable energy field, the acquisition of knowledge and experience in the renewable energy field, and the achievement of reductions in greenhouse gas emissions. Through this work, OMV has significantly reduced its greenhouse gas emissions through increased efficiencies and new renewable sources of energy. It has increased investments in the development of new, low-carbon and renewable energy sources, and it is helping to secure long-term fuel supply and security.⁸

Another example of innovation and technology investment comes from RWE's 'Innogy' program. Innogy was founded in 2008 to pool all of RWE's renewable energy activities under one division, thus creating a stronger focus on the dynamic market and a consistent orientation towards organic growth. The portfolio currently focuses on mature markets comprising onshore and offshore wind farms as well as biomass fuelled plants and hydroelectric power stations. RWE has ambitions to build and operate plants with new technologies, utilizing wave and tidal resources as well as biogas, and provide companies in the foundation or growth phase with equity capital and similar financial resources.⁹

Relationships with governments and regulators

Many of the investments that utilities are seeking to make in areas such as smart grids are long-term investments, the business case for which can be difficult to quantify. If utilities are to interest investors and innovators, much depends on effective relationships with regulators. Some utilities are banding together to increase their influence and also their ability to share ideas.

For example, the GridWise Alliance is a coalition of more than 150 companies across the energy supply chain—from utilities and large technology companies to academia,

venture capitalists and emerging tech companies—that has joined together to transform the electric grid for a more sustainable future. The variety of stakeholders gives the GridWise Alliance a unique diversity of perspectives which enables interactive dialogue between members, and helps to establish a dialogue that can begin to bring greater clarity to the direction of future regulation.¹⁰

Relationships with consumers

As we have seen, utilities CEOs consider their relationship with the consumer to be an increasingly important factor in success, and in their efforts to drive sustainability it will be critical to communicate with the end consumer to outline the benefits that they can expect from companies' innovations. The roll-out of smart meters, for example, which collect specific data on domestic energy usage, has raised consumer concerns over data privacy and security: one leading executive spoke of the possibility of a 'consumer backlash' if the potential advantages are not clearly communicated.

National Grid, through their metering business OnStream, has developed new smart meters that can turn appliances on and off remotely. These meters aim to 'revolutionize consumers' energy use' by running home appliances when energy is cheapest, and helping to balance energy supply and demand in order to pave the way towards greater use of clean but intermittent renewable power. Through their



installation of smart metering technology, National Grid aims to enable consumers to reduce their energy bills while also smoothing demand on their generation capacity.¹¹

Collaboration and partnerships

One of the hallmarks of the new era of sustainability in the utilities industry will be innovation and the commitment to establishing new kinds of partnerships and collaborations to drive revenue growth. For example, in Germany, utilities are threatened by reduced demand for energy and decreasing revenues, and with increased regulation on carbon. Energy company RWE therefore looked to diversify revenue sources by entering the market for electric vehicles in Germany. The complex value chain of the motor industry led RWE to enter into a joint project with Daimler to effectively enter the automotive market. Daimler provides the electric cars, while RWE handles the development, installation and operation of charging infrastructure, supply of electricity and central system control. The pilot is already in full operation in Berlin. By partnering in this way, both businesses are able to leverage their respective capabilities but also ensure that there is no compromising of either's competitive position in their respective industries.¹²

Part Five

Accelerating the journey to the new era of sustainability

The 2010 UN Global Compact-Accenture study of CEOs has uncovered a picture of global business, and global attitudes towards sustainability, much changed since the last study in 2007. Executives demonstrate a stronger commitment to the importance of sustainability principles to their companies, an awareness of both the societal and business value of more sustainable operations and products, and a strong sense of what the next era of sustainability will look like. It is an era where sustainability is embedded or integrated across the global business footprint, from internal operations to the supply chain and subsidiaries.

Based on our CEO survey and one-to-one interviews, we have identified five principal enabling conditions or 'must-haves' that executives believe need to be put in place to accelerate the transition towards a tipping point whereby sustainability is fully integrated into the majority of businesses globally.

1. Create a clearer and more positive regulatory environment

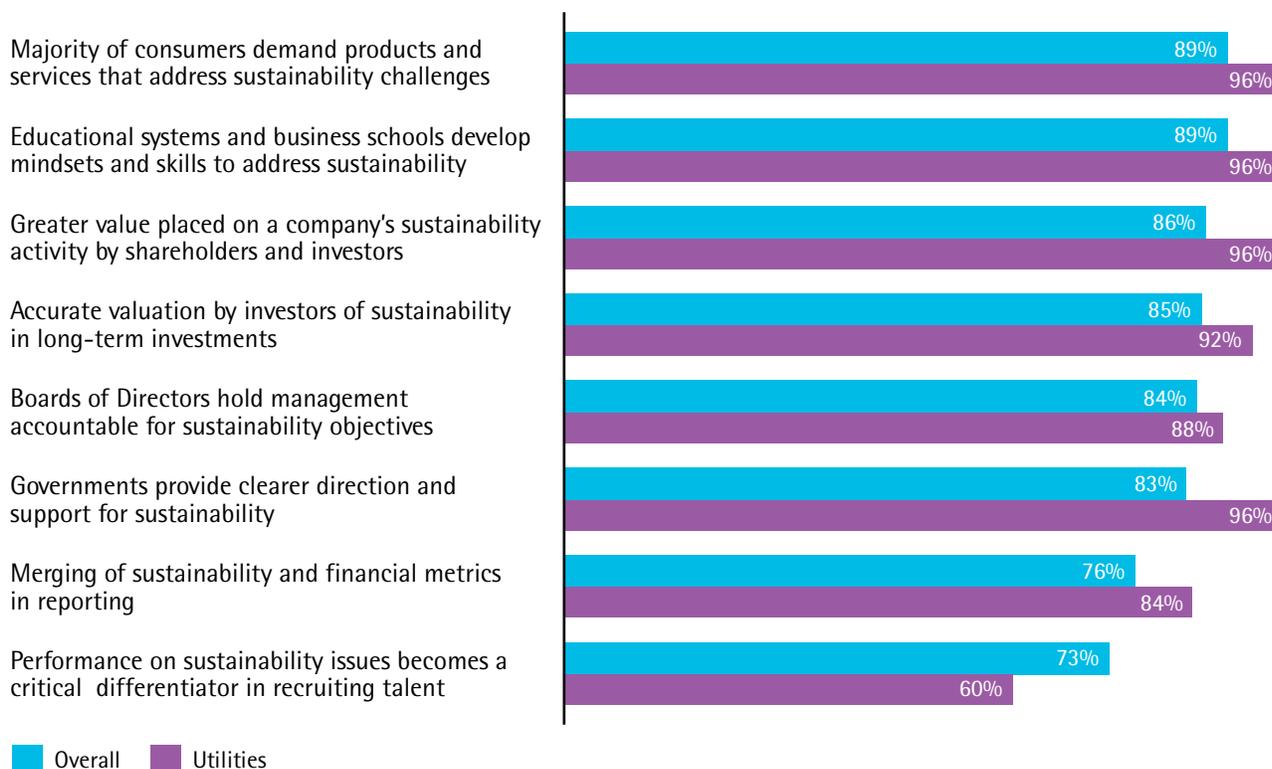
Example business actions:

- Engage with governments to adopt collaborative approaches to shaping regulation
- Develop industry standards that preempt formal regulation and create new forms of collaborative governance

In order to overcome the challenges presented by regulatory uncertainty, build trust and provide a more informed basis for policymaking, businesses can adopt a more proactive and collaborative approach with governments and regulators.

The centrality of government policy in setting the direction of utilities industry demands that companies engage with regulators in order to shape future policy. As we have seen, a commonly-cited barrier to further investment in sustainability is the lack of clarity over future regulation, and closer collaboration could allow companies to be involved in policy making, reducing the risk of unintended consequences of regulation and allowing a greater insight into the future direction of the industry.

Figure 5.1: How important will the following changes be in order to reach a “tipping point” where sustainability is embedded within the core business strategies of the majority of companies globally?



Source: United Nations Global Compact-Accenture CEO Study 2010 (based on 766 completed responses)

2. Generate new skills and mindsets within the company to drive sustainable development

- Invest in enhanced training of managers on sustainability issues
- Shape educational curricula and partner with academic institutions—e.g., through development of vocational courses
- Communicate progress on sustainability issues to employees to encourage behavioural change

Equally high numbers of utilities CEOs—96 percent—also identified an important tipping point as coming when educational systems and business schools develop mindsets and skills needed for future leaders to address sustainability. Utilities face some distinctive challenges when it comes to talent—specifically the fact that the workforce is ageing, and many companies face a loss of experienced workers in the next few years, with an uncertain supply of new workers set to take their place. This ageing workforce may create challenges for utilities companies, but could also be seen as an opportunity to shape the knowledge, attitudes and mindsets of the next generation of employees and managers. This phenomenon is especially apparent in the emerging markets, particularly in India and China, where educational institutions

are training large numbers of highly-qualified power engineers well versed in sustainable thinking and the drive towards renewable energy. The potential talent imbalances within the utilities industry could have a significant impact on the competitive advantage of those utilities able to embed the right knowledge, skills and attitudes for their people to manage sustainability effectively.

Based on our conversations, CEOs see the importance of education and skills in at least two ways. First, at the broadest level, CEOs believe we need better education systems to support sustainable development outcomes. For example, increasing employment and lifting people out of poverty in a sustainable way depends on providing them with opportunities to acquire a broad education as well as marketable skills. This is especially important to utilities as they seek to expand into emerging markets.

Second, executives especially believe that education of a new generation of managers should focus on the broad set of skills needed to partner with a more extensive ecosystem of partners, both cross-industry and cross-sector.

Although businesses believe that formal educational institutions and business schools need to do more when it comes to sustainable education and the development of more relevant skill sets, they also recognize the need

to increase their own efforts to engender the right skills and mindsets in their managers and future leaders. Eighty percent of utilities CEOs say they are already investing in enhanced training of managers to address sustainability issues—an extraordinarily high number compared to the general survey average of 60 percent. To align employee performance with new strategic goals, 76 percent of utilities companies report that they are including sustainability objectives in employee performance assessments—again, well above the survey average of 49 percent.

It is clear that CEOs see a more prominent role in the future for sustainability performance in recruiting talent. Creating a business that is both sustainable and profitable requires efforts by people at all levels of the corporation; thus, engaging employees in the sustainability agenda is vital to success.

Although the link between employee engagement and productivity may be difficult to quantify in financial terms, there are many examples where performance on sustainability issues is leading to higher employee retention rates. Better retention can, in turn, reduce the cost of recruitment and retraining and can protect a company against the loss of corporate knowledge and experience—as noted, something critically important to the utilities industry.

3. Support the creation of an investment environment more favorable to sustainable businesses

- Select and track appropriate metrics to measure and communicate sustainability performance
- Integrate sustainability reporting with financial reporting and investor relations activity, under the remit of the CFO

We noted earlier in the report the difficult relationship that companies have had in recent years with the investment and analyst community when it comes to recognizing sustainability efforts. Utilities may feel that their efforts are not being recognized. On the other hand, investors rightly demand better information on the impact of sustainability on financial metrics, and expect the same rigor in their reporting and justification as with any other financial information—that is, that data is audited and independently validated to prevent what is sometimes called 'greenwashing'—hiding true financial impact behind comfortable platitudes.



We found, in fact, that CEOs see increased interest from investors when they can track and communicate the impact of sustainability on core business metrics and financials. In the end, the power of financial markets, if harnessed, could perhaps be the strongest driver towards companies around the world integrating sustainability into core business.

Edemir Pinto, CEO of Sao Paulo stock exchange BM&F Bovespa emphasizes the need to communicate with investors: "CEOs may complain that investors do not value their sustainability activities properly, but they need to tell investors what they are doing: if they don't communicate regularly, investors cannot incorporate these issues into their models." In addition to engaging and challenging investors on the importance of sustainability performance, CEOs need to be more proactive in communicating progress on a regular basis.

This also means, then, that companies must become more proficient at measuring and tracking the impact of their sustainability activity on core business metrics such as revenue growth, cost reduction, risk management and reputation. By doing so, they will be able to educate investors as to the impact of their sustainability activity in terms that can be built into valuation models.

4. Embed new concepts of value and performance at the organizational and individual levels

- Devise mechanisms to measure both positive and negative impacts on society and articulate value beyond traditional accounting concepts, e.g. P&L and the balance sheet
- Embed sustainability issues into the performance and remuneration packages of top executives

CEOs believe that we are moving towards an era in which businesses will no longer focus exclusively on profit and loss as the primary means of valuation, but rather take into account also the positive and negative impacts on society and the environment. As Hans Vestberg, CEO of telecommunications company LM Ericsson, told us: "We believe that it is not only a company's economic performance that determines its success, but rather successfully combining economic performance with active management of how the business impacts on social and environmental factors." Or in the words of Jamshed J. Irani, Director of India's Tata Steel: "You cannot be a spike of prosperity in a sea of poverty."

Our conversations with CEOs paint a mixed picture of companies making the link between sustainability and current or future value expressed in terms of revenue, cost, risk and intangibles, let alone measuring and articulating their impact beyond these traditional metrics. "We're getting better and better at tracking the benefits," said one European business leader, "but there's still a lot of work to be done. If you're looking at the cost of materials, or energy costs, then it's very easy...but brand value is more difficult to assess." Although businesses are making some progress, it is clear from the survey data, as well as from our conversations, that executives are struggling to structure effective performance management across the business on more tangible measures such as carbon, water and waste emissions management, as well as on intangible assets such as the value of trust, reputation and effective stakeholder management.

Beyond the confines of financial performance, CEOs see a further challenge: although 92 percent of utilities CEOs believe that companies should measure both the negative and positive impacts of their activities on sustainability outcomes, only 84 percent say that they are doing so already. Although such analyses are often complex and open to differing interpretations, they are likely to become more prevalent as businesses seek to reassert a more expansive role in society, with wider concerns beyond profit and loss within their own business.

The impact of this shift will be three-fold. First, it will require businesses to measure their sustainability performance in terms of their positive and negative impact on society. For example, 'whole-life impact assessments' can track a company's water footprint across production, manufacturing and consumption. Second, it will require businesses to link their performance on sustainability to traditional business metrics and value creation. Third, it will necessitate the embedding of sustainability outcomes within employee performance frameworks and remuneration packages. This will require new kinds of information systems and analytics to support a company's sustainability performance management.

5. Actively shape consumer attitudes and needs to create a market for sustainable products

- Measure and communicate environmental and societal impact of operations
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics re sustainability impacts

Nearly all utilities CEOs in our survey—96 percent—believed that a critical moment in reaching the tipping point in embedded sustainability would come when the majority of consumers demand products and services that address sustainability challenges.

Many companies are looking to shape consumer tastes and preferences for sustainable products and services. Duke Energy, for example, actively participates in consumer and investor education in such ways as publishing an annual sustainability report that summarizes its efforts to reduce its environmental footprint, develop next-generation energy technologies and operate as a sustainable business.¹³

Figure 5.2: Creating the conditions for a new era of sustainability

Enabling conditions

1. A regulatory environment that provides clear direction on sustainability and a cooperative environment for business.

2. Educational developments that create sustainability skills and mindsets in executives and workforces.

3. Financial reforms that enable sustainability activity to be incorporated into valuations by investors.

4. New concepts of value and performance that are embedded at both the organizational and individual levels

5. Consumers who consistently demand sustainable products and services, creating favorable market conditions.

Example business actions for utilities, based on CEO interviews

- Engage with governments to adopt collaborative approaches to shaping regulation
- Develop industry standards that preempt formal regulation and create new forms of collaborative governance
- Invest in enhanced training of managers on sustainability issues
- Shape educational curricula and partner with academic institutions – e.g., through development of vocational courses
- Communicate progress on sustainability issues to employees to encourage behavioural change
- Select and track appropriate metrics to measure and communicate sustainability performance
- Integrate sustainability reporting with financial reporting and investor relations activity, under the remit of the CFO
- Devise mechanisms to measure both positive and negative impacts on society and articulate value beyond traditional accounting concepts, e.g. P&L and the balance sheet
- Embed sustainability issues into the performance and remuneration packages of top executives
- Measure and communicate environmental and societal impact of operations
- Improve provision of consumer information and education, particularly through meaningful and accessible metrics re sustainability impacts

Towards a new era of sustainability: Leading the way

Based on our interviews with CEOs, we are starting to see a future era of sustainability with new opportunities and challenges. The increased complexity of sustainability issues and more diffuse networks through which they will have to be managed will take businesses into new, often unfamiliar terrain. Understanding this reality will help businesses take important steps towards not only creating more sustainable economies and societies, but in building capabilities that ensure they can maintain their own high performance and competitiveness on the journey.

Government pressure, regulatory requirements, resource scarcity and commodity volatility all present a challenging operating environment for utilities companies, but new waves of investment in advanced technologies, smart infrastructure and Intelligent Cities present new opportunities for those companies able to master the new dynamics of the industry.

As leading companies look to new waves of growth whilst protecting their traditional revenue streams, the effective management of social, environmental and governance issues is becoming a critical factor in determining success. If new opportunities are properly harnessed through new approaches that help public authorities and private enterprise match their ambitions with execution, the opportunities are immense.

The CEOs we spoke to described a situation in 2010 best summarized as 'the end of the beginning' rather than 'the beginning of the end'. Aligning markets and sustainability outcomes will require constant renewal and adaptation from businesses themselves and in collaboration with others. Many challenges and discontinuities lie ahead, but if business can engage with governments, regulators, consumers, educators and other stakeholders, leading companies can begin to lay the foundations for a new era of sustainability.

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