



THE IMPACT IMPERATIVE:

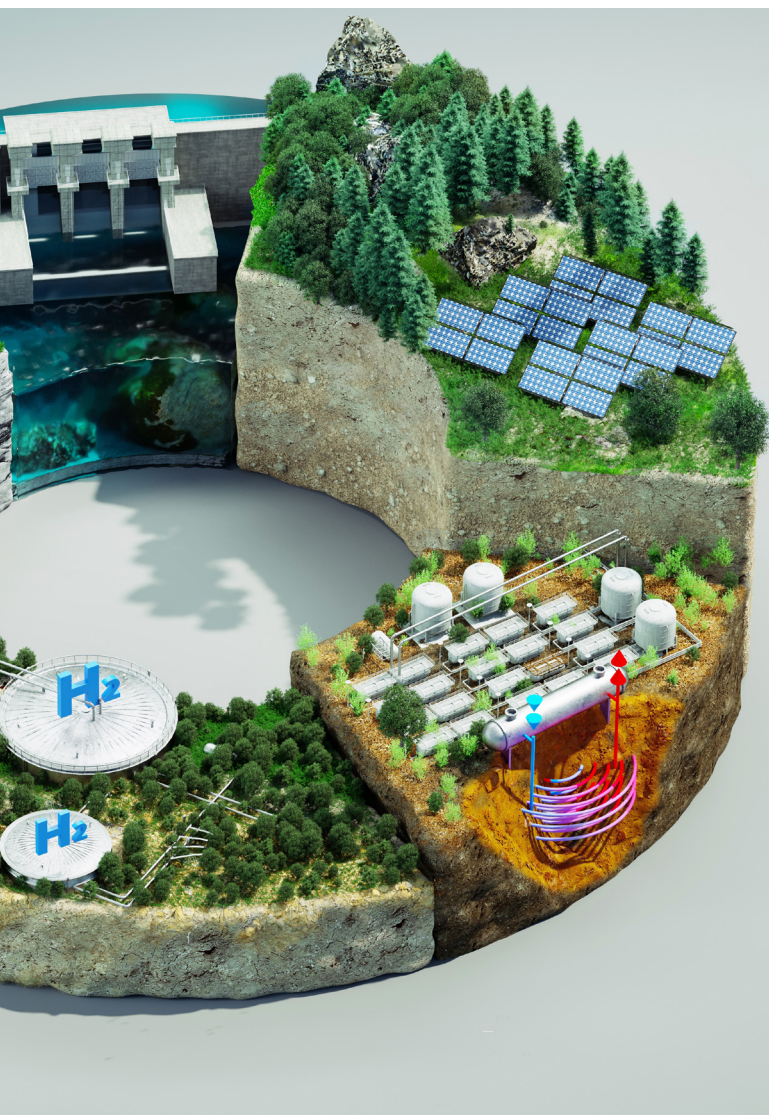
HOW LEADING BUSINESSES ARE SUCCEEDING
THROUGH SUSTAINABILITY



CATALYST™

INTRODUCTION

As the IPCC's latest report on climate change made all too clear, there remains a significant gap between the progress made so far on mitigating global warming and what remains to be done, underlining the importance of taking more action, faster – everywhere, with everyone. While business plays a leading role in this transition, according to the World Economic Forum, just 0.2% of companies in the world have strongly aligned their environmental, social and governance (ESG) plans with the United Nations Sustainable Development Goals (U.N. SDGs).¹



We talked to leading business thinkers in the private and academic sectors to understand what sets them apart as sustainability advocates and innovators, and how companies can place sustainability at the heart of organizational transformation and use ESG as an engine of change.

These “impact companies” overcome challenges by rethinking and reimagining long-established business models, corporate culture and structure as well as the role companies play in their extended ecosystem to be fit for the future.

Long-term ambition is underscored by short-term progress. Leadership from the very top is essential. At the same time, employee expectations must be met. And they are bound to increasingly collaborate with stakeholders upstream and downstream, as well as on the policy side to accelerate their own progress and maximize impacts across the full value chains of their business.

1: <https://www.weforum.org/agenda/2021/03/how-aligned-are-un-companies-with-their-sustainable-development-goals/#:~:text=8%C550%20companies%20in%20the%20MSCI,with%20193%20countries%20on%20board>

It's no longer a choice between sustainability and growth — the two go hand in hand. Investors expect more than a sustainability vision, they want to see clear actions and results on all ESG fronts to justify future funding and risk mitigation.

“I DO THINK CLIMATE IS INCREDIBLY IMPORTANT, BUT INEQUALITY, SOCIAL POLARIZATION I MIGHT ARGUE ARE MORE IMPORTANT IN THE SHORT TERM, AND EQUALLY IMPORTANT IN THE LONG TERM.”

**PROFESSOR WITOLD HENISZ, ESG INITIATIVE,
WHARTON BUSINESS SCHOOL**

By adopting the strategies outlined in this report, companies can position themselves to contribute to and benefit fully from what an impactful, sustainable and successful future can bring.



SUSTAINABILITY, A BUSINESS STRATEGY THAT CREATES ADVANTAGE

KEY TAKEAWAYS



SUSTAINABILITY STIMULATES GROWTH AND PURPOSE IN EQUAL MEASURE



IMPACT COMPANIES GAIN ADVANTAGE BY LINKING SUSTAINABILITY TO ALL ASPECTS OF THEIR ORGANIZATIONS

The sustainability agenda is never far away from the boardroom conversations of most leading companies in today's business world. For those who have embraced environmental, social and governance issues, the concept of sustainability has moved beyond compliance and the cost of doing business to become an engine of purpose and growth, which can galvanize employees and forge new opportunities in equal measure.

“COMPANIES WITH A STRONG COMMITMENT TO IMPROVING SUSTAINABILITY PERFORMANCE ARE BETTER PREPARED TO WITHSTAND SYSTEMIC CLIMATE, SOCIO-ECONOMIC STRESSES AND VOLATILITY. SUSTAINABILITY ACTUALLY BRINGS BENEFITS TO THE COMPANY'S COMPETITIVE ADVANTAGE.”

PATRICK HO, DEPUTY HEAD, SUSTAINABLE DEVELOPMENT, SWIRE PROPERTIES

Impact companies recognize that sustainability is no longer an option, but an imperative, and for some the journey started early. Sustainability at Unilever goes back to the philosophy behind the company's origins over a century ago to make “sustainable living commonplace” through social reform. More recently established companies are no less passionate in their commitment. Vestas, the world's largest wind turbine company, regards sustainability as inextricably linked to its business culture, touching on every aspect of the organization.



“WE FIRMLY BELIEVE THAT BEING A SUSTAINABLE BUSINESS DRIVES GROWTH AND VALUE FOR ALL OUR STAKEHOLDERS. WITHOUT A HEALTHY PLANET, WE CANNOT HAVE A HEALTHY BUSINESS. AND WE BELIEVE THIS APPROACH HELPS US ATTRACT THE BEST YOUNG TALENT IN THE INDUSTRY, TOO, AS MORE AND MORE YOUNG PEOPLE ARE CONCERNED ABOUT THE CLIMATE CRISIS.”

REBECCA MARMOT, CHIEF SUSTAINABILITY OFFICER, UNILEVER

But when it comes to creating impact, simply having a purpose is not enough — tangible ownership and concrete actions must demonstrate this vision, driven from the very top of organization.

Many companies highlight stakeholder expectations to address sustainability, not just within their own businesses, but in terms of ESG issues within the overall value chain. According to EY, 72% of investors are now conducting structured reviews of ESG performance when assessing companies,

compared with just 32% in 2018.² Data from McKinsey reveals a similar trend, with 83% of C-suite executives and investment professionals saying that ESG programs will generate more shareholder value in five years’ time than today.³ Overall, customers expect more, investors demand performance-related evidence and employees both current and future want to work for companies that show world-class sustainability credentials.

In this context, the commitment to sustainability is a “marathon without a finish line,” according to Schneider Electric, which has become a leading digital sustainability enabler and practitioner in less than 20 years. This commitment is necessarily an ongoing and ever-evolving integral part of the business value proposition to demonstrate growth, reduce costs, build trust and mitigate operational risks.

“A COMMITMENT TO SUSTAINABILITY IS A LONG-TERM TRANSFORMATION WITH A LOT OF INNOVATION BEHIND IT. WE ALWAYS NEED TO REINVENT, TO INVEST A LOT IN OUR PRODUCTS, DESIGN AND COLLABORATION.”

GWENAELLE AVICE-HUET, CHIEF STRATEGY & SUSTAINABILITY OFFICER, SCHNEIDER ELECTRIC



2. https://www.ey.com/en_uk/assurance/why-esg-performance-is-growing-in-importance-for-investors
3. <https://www.mckinsey.com/capabilities/sustainability/our-insights/the-esg-premium-new-perspectives-on-value-and-performance>

DEEDS NOT WORDS

KEY TAKEAWAYS



TANGIBLE OUTCOMES DEMONSTRATE GREATER IMPACT THAN AMBITION ALONE



STRONG ACCOUNTABILITY SYSTEMS KEEP THE FOCUS ON SUSTAINABILITY



QUARTERLY DISCLOSURES SUPPORT CONTINUED MOBILIZATION

Despite the well-intentioned ambitions of many companies, recent research reveals a clear disparity between pledges and action.

OVER 8,000

organizations have made long-term net-zero commitments as part of the United Nations' 'Race to Zero' campaign,⁴



YET JUST A HANDFUL have targets aligned with the Science Based Targets initiative.⁵

IN 2021, JUST 8%

of Fortune 500 companies were delivering on their sustainability commitments.⁶

In this context, impact on sustainability becomes apparent only when tangible outcomes are delivered in a much shorter time frame. Professor Witold Henisz of Wharton Business School underscores that companies need to address the milestones leading to their future sustainability goals by identifying what is cost-effective, putting dollar figures on actions and impacts, and reporting annually on progress.

“WE HAVE TO GO BEYOND THE CEO’S COMMITMENT AT DAVOS: HOW DO WE GET THERE, HOW DO WE CONVINCE SHAREHOLDERS, EMPLOYEES, EVERYONE? PUTTING NUMBERS TO THE INTERIM TARGETS IS A KEY CHALLENGE IN THE SHORT TERM-AND ALSO PROVIDING INCENTIVES TO GET THERE. WE NEED TO HAVE INTERIM DELIVERABLES AND INTERIM TARGETS, AND THAT’S WHAT COMPANIES SHOULD BE INCENTIVIZED ON.”

PROFESSOR WITOLD HENISZ, ESG INITIATIVE, WHARTON BUSINESS SCHOOL

Vestas is demonstrating its credentials as an impact company by going further along this route. The company establishes yearly targets for specific areas of sustainability within its business. For example, when Vestas set a goal to electrify its entire transport infrastructure, it broke down this ambition into specific parts. The initial focus was on the corporate vehicle fleet, where rapid progress on a visible, science-based target could be shown. Integrating short-term, tangible and achievable sustainability targets across different business units has helped Vestas demonstrate clear momentum toward its ultimate long-term goals.

4. <https://unfccc.int/climate-action/race-to-zero-campaign>

5. <https://sciencebasedtargets.org/net-zero>

6. https://www.climateimpact.com/media/filer_public/00/73/00732f89-c8c2-4e7d-8316-ababa8755d7/reality-check-study-of-fortune-global-500-climate-actions-and-commitments.pdf

"THERE ARE NO SHORTCUTS. IT IS BY YOUR ACTIONS THAT YOU PROVE YOURSELF. NOT ONLY HAVE WE BROKEN DOWN OUR CARBON REDUCTION INTO YEARLY TARGETS, WE HAVE ALSO BROKEN IT DOWN WITHIN THE ORGANIZATION, SO THAT THE FACTORIES KNOW WHAT THEY NEED TO DO ON A YEARLY BASIS AND SO ON."

LISA EKSTRAND, VP SUSTAINABILITY, VESTAS

For a company to genuinely demonstrate impact, tangible effects need to extend beyond projects to people. At Swire Properties, key performance indicators for sustainability are embedded in workplace goals across different levels and regions. Employees are held to account within their annual performance reviews to show how their work has contributed to the company's sustainability goals.

In addition, Schneider Electric has a strong accountability system in place, in which a significant percentage of both short-term and long-term incentive programs is directly linked to achieving sustainability goals. The leader in energy management and industrial automation discloses its ESG results on a quarterly basis, combined with its financial releases, to ensure progress through short-term monitoring and continued mobilization.

If companies are going to make a meaningful difference, achieving real impact in sustainability needs to be secured through development and execution within a framework of action and accountability.



"WE LINK PROGRESS ON SUSTAINABILITY TO OUR REWARDS MECHANISM. WE STARTED DOING THIS 15 YEARS AGO, AND TODAY A HIGH PROPORTION OF EMPLOYEE BONUSES ARE LINKED TO HOW WE MAKE PROGRESS YEAR-ON-YEAR. BY DOING THIS YOU CONNECT THE BEHAVIOUR AND THE RESULTS WITH THE REWARDS."

CHARISE LE, CHIEF HUMAN RESOURCES OFFICER, SCHNEIDER ELECTRIC

CREATING A SUSTAINABILITY DIVIDEND

KEY TAKEAWAYS



STRONG ESG PERFORMANCE IS TIED TO FINANCIAL STRENGTH



EFFICIENCY GAINS MEAN SUSTAINABILITY CONTRIBUTES TO THE BOTTOM LINE



A FOCUS ON SUSTAINABILITY ATTRACTS WORKFORCE TALENT

Actions on sustainability can have an impact on the full range of a business's functions. These, in turn, can be leveraged to highlight a sustainability dividend that satisfies or even exceeds stakeholder expectations.

Research from Accenture in 2021 showed that companies with high ESG performance outperformed their peers, delivering 3.7 times higher operating margins and generating 2.6 times higher shareholder returns.⁷

Tangible actions support the strong link between sustainability and financial performance. Efficiency gains demonstrate the contribution of sustainability to the bottom line. For example, Unilever has reduced operational emissions by 64% since 2015, with 86% of its worldwide electricity consumption powered by renewable sources. Swire Properties has achieved more than 100 million kilowatt hours of energy savings across its property portfolio since 2020 against baseline, attributed to its comprehensive energy saving strategies.

“SUSTAINABILITY IS NOT A SEPARATE BUSINESS STRATEGY; IT IS AT THE HEART OF OUR BUSINESS MODEL. OUR MULTI-STAKEHOLDER MODEL ALLOWS US TO CREATE VALUE FOR ALL OUR STAKEHOLDERS, AND OUR UNILEVER COMPASS STRATEGY SETS OUT OUR VISION TO BE THE GLOBAL LEADER IN SUSTAINABLE BUSINESS.”

REBECCA MARMOT, CHIEF SUSTAINABILITY OFFICER, UNILEVER



⁷<https://www.accenture.com/gb-en/insights/strategy/delivering-promise-sustainability>

Sustainability can also generate opportunities for business growth. Vestas has taken advantage of its sustainability credentials to access new markets, and Schneider Electric has boosted its sustainability consulting services business and activities in new energy offerings like energy as a service or microgrid solutions.

“YOU NEED TO MAKE SURE THAT WHEN YOU COMMUNICATE, IT IS IN ESSENCE SOMETHING CONCRETE. IT’S A WAY NOT ONLY TO BE TRANSPARENT ON WHAT WE DO AND USE THAT AS A MOTIVATOR FOR ALL OUR STAKEHOLDERS.”

LISA EKSTRAND, VICE PRESIDENT, SUSTAINABILITY, VESTAS

By clearly linking their employee value proposition to sustainability, impact companies can position themselves as top choices for workforce talent. This is important not just in attracting high-potential younger candidates, but also in motivating existing employees. According to Professor Henisz,

many studies reveal a desire among the younger generation to work at companies that address sustainability through a deeper purpose. Deloitte’s 2022 Global Gen Z and Millennial Survey shows that nearly half of respondents are putting pressure on their employers to take action on climate change.⁸ By positioning themselves as engines of sustainability, impact companies become more attractive to new talent, which in turn makes the recruitment and selection process more efficient.

Tangible impact can also create a solid communications platform for sustainability without overextending company rhetoric into greenwashing. Vestas turned a major sustainability initiative into a transparent communications platform when it inaugurated Denmark’s largest electric vehicle battery-charging station. Not only did this demonstrate the company’s commitment to an important aspect of sustainability, it also created a community benefit, as local drivers were able to use the charging station.



⁸ <https://www.deloitte.com/global/en/issues/work/genzmillennialsurvey.html>

DRIVING SYSTEMIC CHANGE

KEY TAKEAWAYS



COLLABORATION WITH ALL STAKEHOLDERS IS ESSENTIAL TO DRIVE CHANGE ACROSS THE FULL VALUE CHAIN



CREATING IMPACT WITHIN A BUSINESS ECOSYSTEM CREATES UNEXPECTED BENEFITS



FINDING COMMON GROUND HELPS ENTIRE CATEGORIES TO BENEFIT FROM INNOVATION AND CREATIVE THINKING

By clearly linking their employee value proposition to sustainability, impact companies can position themselves as top choices for workforce talent. This is important not just in attracting high-potential younger candidates, but also in motivating existing employees. According to Professor Henisz, many studies reveal a desire among the younger generation to work at companies that address sustainability through a deeper purpose. Deloitte's 2022 Global Gen Z and Millennial Survey shows that nearly half of respondents are putting pressure on their employers to take action on climate change. By positioning themselves as engines of sustainability, impact companies become more attractive to new talent, which in turn makes the recruitment and selection process more efficient.

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“WE HAVE BEEN WORKING CLOSELY WITH CHINESE CUSTOMERS TO CO-INNOVATE THE APPLICATION OF DIFFERENT TECHNOLOGY. THOSE COMPANIES REPRESENT THE MOST ADVANCED TECHNOLOGY IN THE WORLD, AND THEY OF COURSE HAVE HUGE PRESSURE ON THIS SUSTAINABLE JOURNEY BECAUSE THEY ARE PART OF THE SUSTAINABLE IMPACT ON DOWNSTREAM MANUFACTURING. SO, YOU SEE MUCH HIGHER WILLINGNESS TO WORK WITH US, INNOVATE WITH US AND WITH A HUGE SCALABILITY.”

**YIN ZHENG, EXECUTIVE VICE PRESIDENT, CHINA AND EAST ASIA,
SCHNEIDER ELECTRIC**



Yin Zheng, executive vice president for China and East Asia at Schneider Electric, says innovation and collaboration are essential to drive change within the value chain. The company has been working closely with its customer base in China to co-introduce the application of different technologies. By testing these new approaches in a market with a strong desire to be early adopters, Schneider Electric plans to achieve breakthroughs that can be applied at scale across the full value chain.

Creating impact within a business ecosystem can produce unexpected benefits, as Vestas has found. The drive to use renewable wind power across the entire energy system creates a virtuous circle for the business, as suppliers become customers seeking to use green energy to produce sustainable components for Vestas.

Unilever’s goal of a deforestation-free supply chain by the end of 2023 has moved the company to spearhead an industrywide transformation that places smallholder farmers front and center in systemic change. By working with these communities to embed the company’s Regenerative Agriculture Principles, Unilever has partnered with smallholders on sustainable farming practices

like good soil management and water conservation. These can yield both greater profitability and sustainability impacts in major crops such as palm oil, soy and cocoa.

Such symbiotic relationships are also developing in other sectors, like the supply chains of major pharmaceutical companies and the built environment. By finding common ground to share knowledge across competitors, researchers and academics, impact companies are acting as touchstones for transformation, leading whole categories to benefit from cutting-edge thinking to address Scope 3 emissions in an inclusive and collaborative way.

“YOU HAVE TO THINK ABOUT YOUR SUPPLIERS AND YOUR CUSTOMERS, AND YOU HAVE TO BRING THEM ALONG WITH YOU. THAT DOESN’T MEAN YOU SOLVE ALL OF THEIR PROBLEMS, BUT INSTEAD YOU SHOULD TRY TO CREATE A SYSTEM OF LEARNING: COULD THE SYSTEMS YOU’VE DEVELOPED BE ADOPTED BY YOUR SUPPLIERS? HOW COULD YOUR CUSTOMERS BE PART OF THE SOLUTION? WHAT ABOUT FULL LIFECYCLE RECYCLING AND OTHER PROSPECTS? WE NEED TO WORK MORE COOPERATIVELY ACROSS THE VALUE CHAIN.”

**PROFESSOR WITOLD HENISZ, ESG INITIATIVE,
WHARTON BUSINESS SCHOOL**

THE FUTURE OF BUSINESS

KEY TAKEAWAYS



BUSINESS LEADERS SAY COMPANIES NEED BOTH SUSTAINABILITY AND GROWTH TO FLOURISH



LINKING GEOPOLITICAL, SOCIETAL AND ECONOMIC ISSUES WITH SUSTAINABLE SOLUTIONS HELPS MITIGATE RISK



THE VALUE OF SUSTAINABILITY NEEDS TO BE DEMONSTRATED CONTINUOUSLY TO MAKE PROGRESS ON ESG GOALS

The business goals of sustainability and growth are now entwined. Research from CNBC shows that 85% of business decision-makers agree that companies must have both to flourish in the future.⁹ Investors are equally clear: PwC reports that 79% regard the management of ESG risks and opportunities as an important factor in investment decision-making, and nearly half are willing to divest from companies that do not take sufficient action on ESG issues.¹⁰

In this environment, the most successful companies of the future will be those that transform, operate and continue to evolve their business models and cultures with sustainability fully embedded into strategy.

Unlike other companies, those at the forefront of sustainability draw a clear link between current geopolitical, societal and economic risks and the path toward sustainability. Many recognize that the addressing the challenges of sustainability does not occur in isolation, but can be seen as providing solutions in mitigating the major risks faced by the world. This, in turn, keeps companies focused on the longer-term goals of net-zero targets and full-scale decarbonization.



“OUR NUMBER ONE PRIORITY IS TO REACH OUR GOAL OF HAVING A DEFORESTATION-FREE SUPPLY CHAIN BY THE END OF 2023, FOCUSING ON PALM OIL, PAPER AND BOARD, TEA, SOY AND COCOA. BUT WE CAN’T DO IT ALONE – WE NEED TO GET EVERYONE ELSE ON BOARD TO HAVE AN INDUSTRY-WIDE TRANSFORMATION.”

**REBECCA MARMOT,
CHIEF SUSTAINABILITY OFFICER, UNILEVER**

⁹ NBCUniversal B2B Sustainability Research – Q3 2022

¹⁰ <https://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/2021-esg-investor-survey.html>

Although the focal points of companies' sustainability agendas may differ, they share a common vision of applying their expertise to addressing current crises in the world. For Swire Properties, the future of the built environment will be shaped by the application of digital solutions to achieve net-zero emissions, increase resource efficiency and improve occupants' well-being. Unilever's future focus is on mitigating deforestation and enhancing biodiversity, and Vestas offers a solution to the energy security challenge through scalable wind power.

When sustainability is so embedded in a company's vision, values and business model, long-term business success hinges on creating and driving solutions to the world's toughest issues. For Annette Clayton, CEO of Schneider Electric North America, digital and electrification are fundamental building blocks in ensuring a sustainable future. This goes beyond Schneider Electric's business model and encompasses core aspects of social inequality, such as the basic human right to energy. For Unilever, human rights within its supply chains continues to be an area that can be addressed only through collaboration and dialogue with suppliers, partners and civil society as a whole.



“THE NEXT TEN YEARS WILL BE THE DECADE OF SUSTAINABILITY; IT'S DIGITAL AND ITS ELECTRIFICATION. AND WHEN YOU'RE DOING THOSE TWO THINGS, YOU'RE DRIVING A MORE SUSTAINABLE, MORE FUTURE-PROOFED BUSINESS.”

ANNETTE CLAYTON, CEO SCHNEIDER ELECTRIC NORTH AMERICA



The opportunities to drive future impact are boundless, but this brighter future will not be realized without continued business performance dividends and the support of all stakeholder audiences. Impact companies must continue to prove the value of sustainability in order to have licence to expand their activities. With COP28 looming, the ball is in the court of business leaders to do good to do well, and to do well to do good – and to make sure to bring everyone along.

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