CLOSING THE GREEN GAP

## How network effects take corporate sustainability from commitment to impact

The evidence is clear: sustainability drives business success. But actions speak louder than words, and too many companies take insufficient action to attain their goals. Success depends on reaching across business ecosystems to include suppliers, regulators, employees, and board leadership in sustainability efforts.

Research from Oxford Economics and SAP shows that sustainability is at a turning point. The global survey of nearly 2,000 executives reveals that sustainability is widely recognized as driving efficiency, building brand reputation, meeting the expectations of modern consumers and employees, and driving profitability. In addition, fully 63% of respondents indicate that their company has a formal sustainability plan already in place.

Most current sustainability plans focus on waste reduction, carbon emissions, and energy use. Even organizations with strong plans in place must work to better communicate their efforts to internal audiences, as nearly two-thirds of these ahead-of-the-curve companies say their scope and vision are effectively and broadly shared. And while the vast majority of respondents say they include diversity and inclusion as part of sustainable policies, few prioritize these efforts to the extent they should.

The Green Gap is even wider when respondents look across their business ecosystems. Most do not view their sustainability as dependent on the many organizations they work with up and down the supply chain. While more than half of executives in the survey have joint sustainability plans with vendors and suppliers, nearly a third say the success of their initiatives relies on these relationships—and only 27% have well-established policies in place for how to work with regulators to ensure that sustainable practices are implemented.

63%
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OXFORD ECONOMICS

SAP
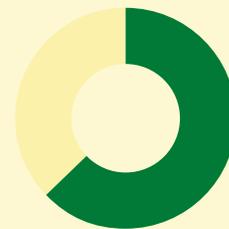
One way to improve sustainability practices and outcomes is to follow the best practices of a small group (about 9% of all respondents) we call "Sustainability Leaders." These organizations have embraced comprehensive programs and are experiencing improved sustainability outcomes, business performance, and brand reputation. Among other distinctive behaviors, this elite group:

- Sets clear expectations about sustainability performance and communicates those expectations across the workforce

- Applies technology and data management know-how in key areas

- Engages with core audiences such as supply chain partners and policymakers

- Creates a system of accountability to ensure that sustainability efforts go beyond talk

This holistic, integrated approach correlates with strong business performance. While our data does not allow us to directly attribute overall financial results to closing the Green Gap, our Sustainability Leaders do enjoy robust bottom lines—these companies are substantially more likely than others surveyed to experience profit margins in excess of 10%. This, in turn, increases opportunities to create significant long-term value for business, their people, and society as a whole.

Different industries, different business cases

There is some consensus across industry sectors about the value of sustainability programs and their basic components. Well over half of survey respondents (58%) cite efficiency as a primary driver behind their policies, and nearly half cite these efforts help improve the reputation of the business, or meet customer demand. Current table stakes for a sustainability effort most often include:

♻ **waste reduction (65%),**

CO₂ **emissions tracking (53%),**

🌿 **minimizing energy use (47%).**

But definitions and rewards can vary by industry. For example, respondents in sectors including utilities and oil, gas, and energy are more likely than others to include monitoring the amount of energy and resources needed to create and deliver their products and services. These companies also are more likely to include establishing business networks to reduce waste in operations in their definition of sustainability.

By contrast, organizations that create and distribute products—such as those in consumer products and retail—identify the sourcing of sustainable materials that go into products, packaging, or services as being more essential to sustainability.

Unleashing the sustainability network effect

To meet sustainability goals and commitments across the value chain—from sourcing to manufacturing to delivery—companies need to work with like-minded organizations and establish transparent processes to ensure all parties are held accountable. The good news: more than two-thirds of respondents have launched pilot efforts to work more sustainably with partners, and over half have enforceable joint sustainability policies in place with a vendor or supplier in their network.

But too often the connection between outside practices and internal goals is not strong enough. Just 16% have well-established policies for working sustainably with vendors and suppliers. More than one-third do not view sustainable energy providers as critical to their own carbon-reduction efforts, and barely one-quarter even focus on identifying such partners.

Sustainability Leaders understand the network effect. They are more likely to have well-established policies for working sustainably with partners and to focus on improving these relationships. They often have enforceable joint sustainability policies with vendors and suppliers (72% vs. 53% of other respondents), and have joined industry task forces to enforce sustainable practices across their industry (64% vs. 49%). Perhaps most importantly, Sustainability Leaders are far more likely to take decisive action when their partners fail to meet sustainability goals; one in five have terminated a contact with a vendor or supplier that did not meet expectations (vs. 11% others).

Reaping the rewards of a circular economy

A circular economy relies on the strength of networks that include everyone from customers, manufacturers, and industry competitors to non-industry partners regulators, and employees. Sustainability Leaders leverage their superior ecosystem management to enhance circularity. They have a more mature and complete understanding of the value chain, from production through use, recyclability, disposal, and resale (84%, vs. 67% of other respondents), and are more likely to have built products and services that allow for specific upcycling uses (71% vs. 57%).
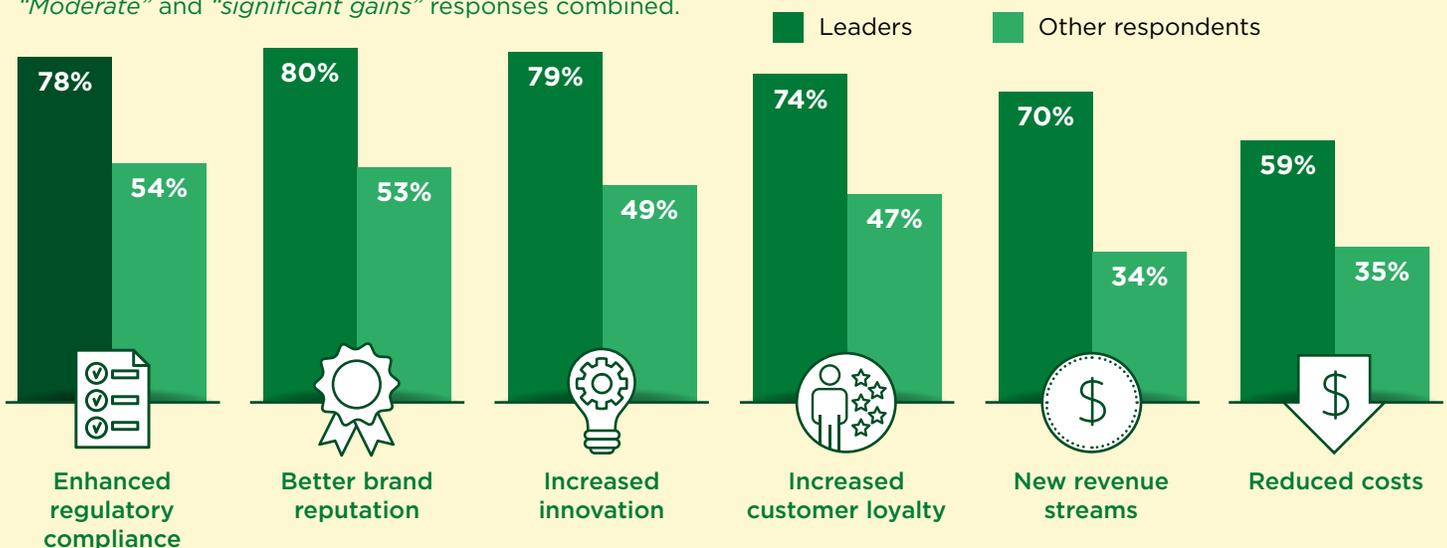
These pace-setting companies are more likely than others to have changed the design of products and services to result in less waste (81% vs. 66%) and are ahead in working with partners to build networks that make use of products after their initial purpose has been served. Many have even started building circular relationships with customers, with 44% saying they work with customers to reacquire products when their initial purpose is complete (vs. 38% of others).

The payoff? Sustainability Leaders are significantly more likely to see benefits across multiple business areas—from operational efficiencies to financial improvements.

But even these front-runners have yet to seriously look at a potentially game-changing resource: nature-based solutions. Just over half of respondents believe that nature-based solutions (defined as natural features and processes applied to business) represent a meaningful path to a sustainable future. But cost is a concern; two out of five believe that integrating these capabilities into existing processes would require expensive new equipment and tools. Encouragingly, though, more than half of Sustainability Leaders (56%) have begun natural-capital pilot efforts in select markets (vs. 49% of other respondents).

Fig. 1: The benefits of a circular economy

Q. To what extent has your organization witnessed the following results from your circular economy efforts? *"Moderate"* and *"significant gains"* responses combined.

Leaders Other respondents

	Leaders	Other respondents
Enhanced regulatory compliance	78%	54%
Better brand reputation	80%	53%
Increased innovation	79%	49%
Increased customer loyalty	74%	47%
New revenue streams	70%	34%
Reduced costs	59%	35%

Sustainability starts at the top

No plan works well without buy-in from stakeholders, and leadership from the top is essential to securing this support. Nearly two-thirds of respondents say sustainability initiatives are more likely to succeed when senior leadership plays a key role. Fortunately 58% of respondents report that the board of directors determines their sustainability goals and metrics.

Figure 2: Following sustainable direction, without the pay.

Q. How does your organization decide which metrics to consider when measuring sustainability goals?

The board of directors determines sustainability goals

58%

Q. To what extent do you agree with the following statements about your workforce's engagement with corporate sustainability policies? *"Somewhat"* and *"Completely"* agree responses.

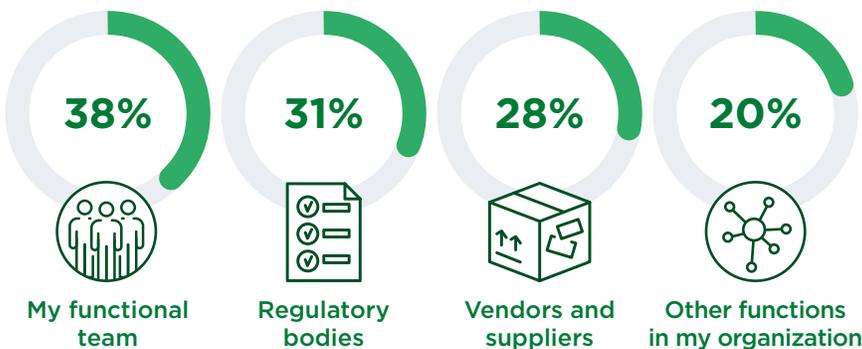Our employees are highly active participants in sustainability efforts

49%

We have a clear incentivization policy for employees who contribute ideas that boost sustainability efforts

27%

Yet sustainability efforts often are still siloed within organizations—which may be why most respondents do not believe collaboration is essential to operating sustainably.

Fig. 3: A lack of communication kills sustainability success.

Q: To what extent does the success of sustainability initiatives at your organization depend on strong collaboration with each of the following groups? "Significantly" and "Completely" dependent responses, combined.

38%	31%	28%	20%
My functional team	Regulatory bodies	Vendors and suppliers	Other functions in my organization

Keeping pace with evolving regulations

Governments are feeling pressure from citizens and the scientific community to address rising global temperatures, greenhouse-gas emissions, and the increasing volume of plastic in our oceans. This outcry has fueled a decade of legislative and industry-led regulatory reforms. Most respondents say industry-created standards help them stay in compliance, but many still struggle: Just 27% have embedded policies for how to work with regulators into day-to-day processes. And while sustainability policies will become increasingly routine, today just 40% actively work with regulators to push more rigorous policies for their industry.

Sustainability Leaders are more aggressive and better positioned to make important decisions that boost sustainability efforts. Nearly all—92%—say sustainability standards in their industry have helped them comply with external standards and regulatory requirements. Leaders are also less likely to say the resources at their disposal today prevent them meeting these goals (38% of Sustainability Leaders, vs. 47% of other respondents).

Leaders also have established behaviors that foster closer relationships with regulators. They are more likely to go out of their way to report sustainability metrics to regulatory bodies (61%, vs. 49% of others), enhancing transparency and allowing room to adjust if targets are not met. Still, there is room for improvement, with only 39% saying these processes are well established (vs. 26% of other respondents).

Sustainability Leaders understand the value of an organization-wide approach. They are much more likely to communicate sustainability plans across the workforce, creating a cohesive mindset that all can embrace (89% leaders vs. 58% average).

Their plans are more comprehensive, too, going beyond basics like waste reduction to measure things like carbon emissions (72%, vs. 51% of others), recycling and re-use (51% vs. 38%), and supply-chain sustainability (43% vs. 27%).
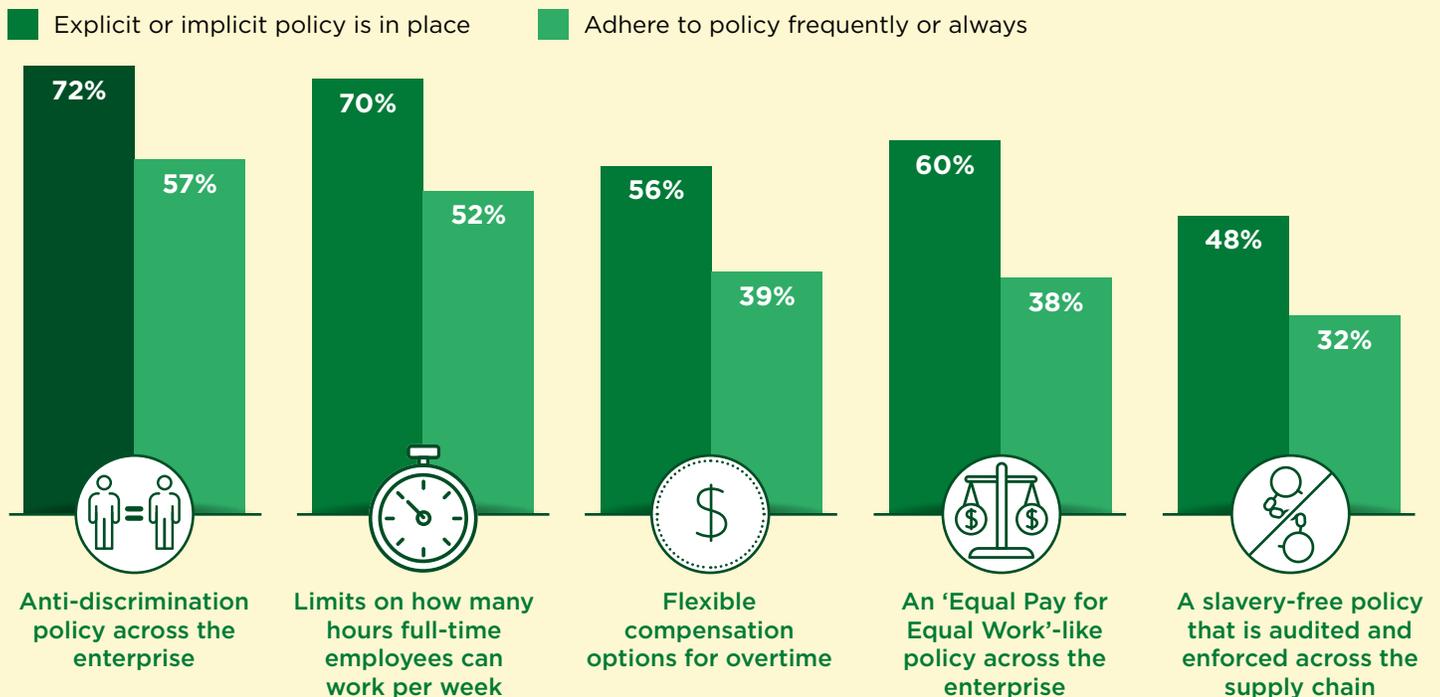
Building a sustainable workforce

Creating a safe, diverse, and inclusive workplace culture is top-of-mind for survey respondents. Fully 91% prioritize a diverse and inclusive workforce as part of their sustainability efforts, while 76% claim that a diverse workforce is crucial to the success of sustainability initiatives. Respondents also focus on developing worker skills and capabilities (89%), with most saying they frequently conduct reskilling or upskilling opportunities for current employees.

Yet bringing all these elements together in a coherent action plan remains a challenge. Of the 60% of respondents with sustainability plans, just 23% say their plans include diversity metrics—and only 21% include educational or training metrics. Most respondents have not yet established policies explicitly designed to protect workers' rights and safety—and even when they have, they're not always followed (see below).

Sustainability Leaders do better by these metrics and are more likely to provide extra value to their workers, such as financial planning and financial counseling (54% do this, vs. 35% of other respondents) and mental health counseling (47% vs. 28%). And they frequently invest in environment, health, and safety software (55% vs. 29%) to enable a safe and inclusive workforce environment.

But nobody is perfect on this front. Leaders are only slightly more likely than others to have explicit policies on anti-discrimination (62% vs. 54%) and slavery-free supply chains (41% vs. 32%). Sustainability Leaders with these policies in place are highly likely to adhere to them (our study does not explore why these policies are not always followed); 90% with an anti-discrimination policy say they follow it frequently or always, and 84% with an anti-slavery policy say the same.

Fig.4: Do as I say, not as I do.

■ Explicit or implicit policy is in place   ■ Adhere to policy frequently or always

	Anti-discrimination policy across the enterprise	Limits on how many hours full-time employees can work per week	Flexible compensation options for overtime	An 'Equal Pay for Equal Work'-like policy across the enterprise	A slavery-free policy that is audited and enforced across the supply chain
Explicit or implicit policy is in place	72%	70%	56%	60%	48%
Adhere to policy frequently or always	57%	52%	39%	38%	32%

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The crucial role of data

Data is perhaps the most critical driver of achieving sustainability success, suggesting that sustainability is the new frontier of digital innovation. Capturing and analyzing the right data provides insight into resource demand and allocation, process efficiency, and environmental impacts of operations. Perhaps most importantly, data provides insights that assist in quick decision making on how, for example, the business might intensify or accelerate operations without adversely affecting sustainability, or when sustainability measures might be made more aggressive without pulling back on financial goals. In short, data-driven sustainability does not have to come at the cost of stakeholder returns.

Many organizations lack confidence in their ability to drive sustainability using data. Over half of respondents report that insufficient data management and analysis skills in their organization make it difficult to achieve sustainability; 54% report difficulty cleansing redundant data sets; 55% find it difficult to manage separate processes for in-house and external software; and 55% have difficulty sharing data between different kinds of software. Failure to measure sustainability performance, however, opens up the risk of missing out on valuable insights that data can deliver to sustainability efforts—setting employees up for failure and opening companies up to regulatory infractions and fines.

Fig. 5: Failure to measure means innacurate reporting.

Q: Which of the following steps has your organization taken to better measure sustainability at your organization?.

Increased investment into data analysis to make use of data more effectively	49%
Trained employees to accurately capture sustainability data during their day-to-day responsibilities	43%
Carried out frequent training sessions for employees on how to work under new sustainable policies	40%
Constructed a model that measures actions vs. performance across our sustainability goals	39%
Increased investment into data capture to inform decisions	35%

The opportunity: transforming business performance with data

Data management is an area where Sustainability Leaders truly shine. They are more likely to measure their carbon output, whether in specific areas of their business (66%, vs. 57% of other respondents) or across their business as a whole (25% vs. 15%). They are also much more likely to measure carbon output for at least some suppliers or vendors (75%, vs. 57% of other respondents).

They also act on what they find. Sustainability Leaders are more likely to have made operational changes based on sustainability performance data (69% vs. 58%) and to have realized at least moderately successful results from their efforts to measure sustainability performance (86% vs. 65%).

Across the board, Sustainability Leaders prioritize capturing accurate data to inform leadership about carbon output. And they take their efforts even further by monitoring the energy and resources required to create and deliver products and services at a higher rate (58% of Leaders, vs. 41% of others) and employing low-carbon transportation methods to move products and materials through the supply chain (38% vs. 23%).

These steps are paying off. While revenue growth is not tightly correlated to sustainability—Sustainability Leaders are only slightly more likely to experience revenue growth greater than 10% (27%, vs. 23% of other respondents)—the research makes clear that building sustainable practices drives good outcomes.

Sustainability Leaders are more likely to report significant emissions reductions (73% vs. 45%) and to have created new revenue streams (30% vs. 9%)—and they are more likely to expect continued improvements in these areas over the next three years (82%, vs. 57% reduced carbon emissions; 34%, vs. 15% new revenue streams).

Sustainability Leaders are more likely to report significant emissions reductions (73% vs. 45%) and to have created new revenue streams (30% vs. 9%)

The roadmap to a sustainable future

Companies around the world recognize the importance of sustainability in strengthening their brand and their business. But few are taking sufficient action. To become more sustainable, companies need to follow in the footsteps of Sustainability Leaders. Specifically, they need to:

- Create a comprehensive, top-down sustainability plan

- Engage employees, vendors and suppliers, regulators, and customers to ensure buy-in and participation in sustainability efforts

- Track sustainability metrics across the value chain, and hold accountable, those failing to meet targets

- Make data-driven operational changes to drive sustainability and new revenue streams

Perhaps most importantly, companies need to engage the internal and external audiences on the front lines of implementing sustainability efforts—and the right integrated technology to connect data and enable the transparency, collaboration, and insights needed to drive sustainability that works for all stakeholders across the business and beyond.

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