Executive Pulse: Sustainability and Business Strategy Converge

Published 12 February 2021 - ID G00745924 - 4 min read

Research Board Research Team

Initiatives: CSCO Strategic Leadership; Executive Leadership: Enterprise Strategic Planning and Execution; Internal Control, Tax and Investor Relations; Manufacturing Digital Transformation and Innovation; Procurement Management; Sourcing and Procurement

About half of executive leaders guiding sustainability initiatives report the pandemic has increased momentum for environmental change. More than half say these projects are affecting business objectives, stakeholder engagement and operations.

Fast word on tactics and concerns from thousands participating in our calls and polls.

More detailed, role-specific reports may be available on the website, depending on your subscription.

Enterprises taking a transformational approach to sustainability and setting more aggressive targets are reporting a wide range of financial benefits and differentiation in the market.

Sustainability Spending Stays on a Growth Track Through the Virus Crisis

Nine in 10 executives who worked on sustainability issues reported in November and December of 2020 that investments increased since 2017 and will continue accelerating along a similar trajectory over the next three years (see Figure 1).
Half (49%) told us the COVID-19 pandemic has increased the pace of sustainability efforts, one-third (35%) said there was no impact and 17% said the pandemic has deprioritized these initiatives.

Seventy percent also said the pandemic has boosted the priority of social issues in their organizations.

**Targets for Greenhouse Gas Emissions Are Tied to a Variety of Metrics and Time Frames**

“Carbon neutral” is the most common greenhouse gas (GHG) emissions target that companies are setting; 37% say they will reduce emissions as much as is practical and economically viable, and then purchase or develop offsets to prevent or remove emissions elsewhere.

More than one in five respondents have adopted science-based targets aligned to the Paris Agreement (22%).

Twenty-two percent set absolute targets, while 14% are using relative targets — reductions per a specific measure, such as economic output or production volume (see Figure 2).
Those at companies with a physical supply chain are three times more committed to science-based targets than those in service-based industries. On the other hand, service-based industries are more than twice as likely to use “net zero” targets, aiming to remove greenhouse gases in an amount equal to what they produce.

Among those that have set GHG emissions reduction targets, more than half (53%) have set a time frame of five years (53%) or 10 years (45%). Only 8% of respondents say their organization is less aspirational, with targets of up to 30 years.

**Boosting the Brand Is the Most Common Benefit Achieved; When Green Initiatives Are Strategic, a Door Opens for Innovation and Efficiency**

The boost to brand and reputation is the advantage that executives most frequently told us sustainability actions had already achieved.

And organizations treating sustainability as a strategic activity and those exploring new partnerships (transformation) achieve better business outcomes than organizations undertaking piecemeal projects or those with executive-led initiatives (optimization).

Executives at transformational enterprises ranked these benefits among the top three achieved in 2020:

- Resource efficiency (49%)
Global Pressure for Change Comes Most From the Customer

Over six in 10 respondents globally (63%) say the customer is their most important catalyst for action.

The head of product development at a European manufacturer told us why:

“Investment basically comes from sales. I get my budget from sales. Sales is, of course, driven from the customers. And then the customers are asking for a good product with a good sustainability and a good quality.”

In the Asia-Pacific region, the regulator tops the list (65%). One in four in supply-chain-dependent industries state that nongovernmental organizations and environmental activists create pressure to invest in sustainability, about twice the percentage (12%) in the services sector (see Figure 4).
Customers are the top stakeholders for the organizations to invest in sustainability

Top 3 Stakeholder Groups Creating Pressure to Invest in Sustainability Initiatives

- Customers: 63% (1st choice)
- Suppliers: 48%
- Employees: 46%
- Public: 42%
- NGOs and environmental activists: 21%
- Politicians: 14%
- Supply Chain: 13%
- Other: 7%

$n = 183$; All Respondents
C09: What are the top 3 stakeholder groups creating pressure for your organization to act on/ invest in sustainability initiatives?
Source: Gartner 2020 Sustainability Survey

Supply Chain Leaders Say They Are Helping the Planet and the Bottom Line

Supply chain leaders are taking these steps in the next 18 months to reduce environmental impacts:

- Efficiency measures, such as waste reduction (95%), less water use (88%) and operational GHG emissions reduction (88%).
- Supplier engagement in responsible sourcing (93%), minimizing single-use plastics (81%) and taking action on targets, such as greenhouse gas emissions (87%).
- Offering the market new greener products (84%) or new business models, such as the circular economy (76%) — systems designed with the reuse of goods and materials in mind (see Figure 5).
Third-Party Emissions Are Tough to Track

Three challenges in meeting sustainability goals that were cited during calls with more than 100 supply chain leaders are:

- Collecting reliable GHG emissions data from raw materials suppliers and third-party logistics providers.
- Committing to the circular economy because of difficulties in establishing the business case, putting in place collaborative partnerships and selecting strong product candidates.
- Satisfying enterprise business case requirements for financing once the quick-win projects are done. This leads them to consider other mechanisms, including internal carbon taxation, green bonds or energy performance contracts (which shifts from a capital to an operating expense).

Sustainability Reverberates Across Strategy, Operations and Products

Sustainability initiatives make a mark on a wide range of business activities. Sixty-one percent of executives say strategy is one of the top activities affected (whereas in the Asia/Pacific region, that figure is higher — 81%).

Sustainability is also influencing decision makers who deal with stakeholder engagement, operations, products and services and the business model (see Figure 6).
Figure 6. Sustainability Has the Highest Impact on Stakeholder Engagement and Strategy

Sustainability has the highest impact on stakeholder engagement and strategy

Activities Impacted by Sustainability
Rating Scale (1 = No impact at all, 7 = Transformational impact)

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n varies ; All Respondents, Excluding Not sure
Q12. To what extent are the following activities being impacted by sustainability in your organization?
Source: Gartner 2020 Sustainability Survey

Contributions from the following Gartner teams:

- Supply Chain
- Tech CEOs
- CIO

Compiled by Daniel Ryntjes

Contact Daniel with any questions or comments.

Recommended by the Authors

Gartner Business Quarterly — 1Q21 (Employee-Centered Paths to Growth)

Strategic Cost Optimization Resource Center

Coronavirus (COVID-19) Resource Center

Endnotes
1. The Gartner 2020 Sustainability Survey shows that 29% of executives in the supply chain industries are selecting science-based targets, while only 10% are doing so in services companies.

2. The Gartner 2020 Sustainability Survey shows 22% of service-based industry executives selected net zero targets, and 10% for those in supply chain industries.