

CLARKE MURPHY

Russell Reynolds Associates

sustainable leadership

LESSONS OF VISION, COURAGE, AND GRIT FROM THE CEOS

WHO DARED TO BUILD A BETTER WORLD

WILEY

sustainable **leadership**

CLARKE MURPHY

Russell Reynolds Associates

sustainable **leadership**

LESSONS OF VISION, COURAGE, AND GRIT FROM THE CEOS

WHO DARED TO BUILD A BETTER WORLD

WILEY

1

A Sense of Urgency

We have left it too late to solve this dilemma with a graduated response. Emergency action, akin to putting the economy on a war footing, remains essential.

—Ian Dunlop, former senior executive, Royal Dutch Shell, 2016

A RIVER FULL of coal ash. That's what Lynn Good, CEO of Duke Energy, had to face six months into her job as leader of the largest utility in the United States. On February 2, 2014, security guards at the Duke Energy Dan River Steam Station in Eden, North Carolina, noticed liquified coal ash leaking from a buried stormwater pipe. Coal ash is the gray, powdery by-product of burning coal that's used to produce energy. The drainage pipe had spewed nearly 40,000 tons of the slurry into the Dan River, along with 27 million gallons of wastewater that had been released from an old coal plant that had, ironically, been shut down two years earlier.

This was, potentially, an ecological and human disaster. It took a week to seal the broken pipe, by which time the ash had made its way almost 70 miles from the original site. The river, which was a source of

drinking water for the communities along its banks, as well as a haven for anglers and nature lovers, now had traces of arsenic, lead, zinc, iron, selenium, and other poisonous metals and chemicals. Fortunately, the immediate fears that fish and wildlife, including endangered species, might be killed were never realized. But Duke Energy would have to manage the damage to the company's reputation for years afterwards.

Lynn and I have been friends for a number of years. We first met when we advised the board of Duke Energy on its CEO succession. Lynn was CFO at the time and was eventually selected as chief executive. (Duke Energy had the distinction of having both a female CEO and a female chair, Ann Gray.) An accountant by training, Lynn was among the few female partners at two big accounting firms, Arthur Andersen & Co. and Deloitte. A self-described "numbers gal," she is dispassionately analytical, yet at the same time deeply empathetic toward the people she manages.

"How did you feel when you were faced with that scene?" I asked Lynn about the ash spill, seven years later. "It must have been one heck of a rough start to your new job!"

"It had a profound impact on me," Lynn explained. Against the advice of many, she immediately drove to the site to inspect the damage for herself. "The enormity of what had happened actually hit home before I could even step out of the car."

The gentleman in charge of Duke Energy's fossil hydro division came up to her car window looking stricken. Lynn could have sworn she saw tears in his eyes. She quickly rolled down her window and looked up at him as he spoke in a voice hoarse with emotion and fumes: "We will fix this; I promise," he told her.

Lynn was acutely aware of the emotional devastation this environmental disaster had caused her team—a workforce that strove for operational excellence and total reliability. That moment crystallized how deeply the team at Duke Energy wanted the company to be both sustainable *and* reliable. Duke Energy was made up of multiple generations of family members and enjoyed a culture of enormous pride. This era of sustainability would be an extension of that corporate pride.

All at once the company was in the crosshairs of environmental activists, federal agencies, and the media. But this tragic incident would reinforce its journey toward becoming an industry leader in clean, green energy. The executive team on down, Duke Energy intensified its long-standing focus on sustainability, with Lynn's unflagging support and guidance.



Duke Energy, under Lynn Good's leadership, heard the clarion call of sustainable business and began the challenging work of washing the "dirty face of coal" several years earlier than most. She began the often-painful task of closing fossil-fueled plants, phasing out coal, and transitioning to more renewable forms of energy while giving teams in those business units the opportunity to retrain, relocate, and grow along with the organization.

Duke Energy also funded an innovation center that, among many other things, tests out green energy solutions for its customers. They also started a program (in partnership with Accenture and Microsoft) to buy satellite imagery and use drones to spot methane leaks with much greater efficiency than hand-held detectors. Lynn paid close attention to her team leaders across all areas of the business, seeking real engagement on what was needed to achieve the dual missions of the company—reliability and sustainability—while also reinforcing the importance of customer affordability. I will delve into more detail about Lynn's transformation strategy later in this book. Suffice to say it was a multipronged effort that took equal parts persistence, patience, and unwavering commitment.

"In my mind, it's building a workforce that can make change, which in this case happens to be around climate and sustainability," Lynn shared with me. "I want people who are willing to challenge [the] status quo, someone who is more interested in how it can be done versus how it used to be done. Someone who spends time looking outside for solutions, as opposed to just inside. Someone who can catalyze a team of people to go after a big complex assignment, where

you don't know what the exact result will be, but you make progress along the way. You stop early when it looks like a failure, and you have the resilience to pivot and keep going on something new."

It's advice that leaders from a broad cross-section of industries could use. Even those who may not have even seen themselves as bad actors on the global stage are recognizing that they have a role to play in addressing the world's challenges and that the time to act is long overdue. Sustainability has emerged as the defining issue of our time. It is no longer a nice-to-have; it's a *must*-have.

Achieving the level of transformation necessary to avert profound global crises takes leaders like Lynn who have vision and grit. With corporations under growing pressure to look beyond quarterly performance and profits to deliver true long-term value for all stakeholders—employees, customers, suppliers, and members of the general public affected by their decisions—simply appointing a chief sustainability officer, although an important step, is not enough. There needs to be a wholesale embrace of sustainability at all levels of an organization and across every function.

And yet, according to our *Divides and Dividends* report¹ at RRA, which delves into action steps that can be taken for a sustainable future, only 43% of C-suite leaders globally say their organization has a sustainability strategy in place that has been acted on and clearly communicated, and only 51% believe their CEO is personally committed to advancing sustainability goals or can point to progress. (Employees are even more skeptical, with just 26% recognizing CEO commitment.) When asked about the driving force behind their company's approach to sustainability, 45% of C-suite leaders cited brand management—they want to be viewed as socially responsible or use sustainability for competitive differentiation. And a mere 21% say that value creation sets the agenda.

While CEOs flounder, the world's challenges continue to escalate. We're on track for a 3.5-degree Celsius rise in temperature this century based on current commitments (UNEP 2019 Emissions Gap Report²) and 14 million tons of plastics continue to enter our oceans every year, according to the International Union for Conservation of Nature.³

The 2019–2022 global pandemic laid bare even more of the vulnerabilities humanity faces, from access to health care and

vaccines to supply chain chaos and financial hardship from lockdowns and unemployment. As a result, the legitimacy of major commercial enterprises, and the people who lead them, is coming into question like never before. A vast swathe of stakeholders—including customers, employees, investors, and suppliers—are challenging companies to respond to changing societal values, concerns about climate change, the depletion of finite natural resources, and the political instability that goes along with these social and economic inequities.

Bernard Looney, CEO of multinational oil and gas company bp, and one of the many leaders you will hear from later in this book, has taken note of the shift in consciousness around the world: “That’s what society is expecting, and I’m not here to fight society. You cannot go against the grain of society and expect to be a long-term successful company.”⁴

The Trust Deficit

Consider the results of the January 2020 global marketing survey—the “Edelman Trust Barometer”—where more than half of respondents reported that capitalism in its current form is doing more harm than good.⁵ A few months later, respondents pointed to a growing sense of inequity, with 67% of those sampled agreeing that those with less money and education have unfairly suffered most from the risk of illness and the need to sacrifice due to the pandemic. Less than a third thought global CEOs were doing a good job of responding to the shifting needs of consumers and other stakeholders during the pandemic.⁶

And yet, by the time Edelman had conducted its 2021 trust survey, when we were further along the trajectory of the pandemic, public perception of CEOs had shifted. Trust in news sources and government agencies had plummeted to all-time lows due to an epidemic of misinformation, leaving businesses as the only institutions that are trusted as competent and ethical, according to 61% of respondents. A stunning 86% of respondents said CEOs must lead on societal issues, and 68% want businesses to take charge when government fails to fix these problems.⁷

Spreading the Word

One example of businesses stepping into the breach to communicate about sustainability is occurring in the beauty and wellness industries. In 2021, Brazil-based beauty group Natura &Co, which owns Natura, Avon, The Body Shop, and Aesop, became a founding member of the WaterBear Network, a free streaming platform that promotes environmental awareness and action. Natura &Co will showcase content such as documentaries on the Amazon through its own dedicated channel, promoting advocacy through storytelling. The beauty brand plans to educate the public at large through “inspiring content” about climate change, human rights, and embracing full circularity of its use of resources by 2030.

My own takeaway from these survey numbers is that business leaders now have a strong mandate to step up, fill the void, and lead on broader societal issues that go far beyond their corporate footprints. These CEOs, board directors, executives, and team managers are facing heightened expectations to use their intellect and energy to deliver solutions to the many existential problems we face as a global community.

To answer that call, a new level of ambition is needed, combined with a sense of urgency.

“We have a rare and short window of opportunity to rebuild our world for the better, and therefore we need to focus more than ever to ensure that our post-COVID strategies, goals, and plans fully integrate the Sustainable Development Goals to create a strong and more resilient world,” announced António Guterres, UN Secretary General.

Triple Bottom Line

There is a powerful business case to be made for sustainable leadership. It’s not just about doing what’s right, although ideally that would already be part of any corporate values statement. Pursuing sustainability

goals can lead to greater profitability, as well as stronger morale and increased productivity among stakeholders newly energized by the mission-turned-into-actions. Pharmaceutical giant AstraZeneca, which rolled out its COVID vaccine at cost and prioritized the poorest countries for distribution, received little to no internal pushback from this expensive and high-risk decision because, as chairman Leif Johansson told me, “Most people want to do good. It’s human nature.”

Corporations can’t thrive in a world of poverty, inequality, social unrest, and environmental crisis. Markets will shrink, supply chains will break, consumers and employees will revolt, and external regulators will slap you with punitive fines and operating restrictions. Fully integrating sustainability into your strategy and operations while anchoring it to your company’s purpose needs to become standard procedure. This is a question of the legitimacy of your business and a license to operate. But a sustainable mindset goes beyond risk management. It’s not just about avoiding fines or burnishing a business reputation. It’s the recognition that within these challenges lie opportunities for long-term growth.

My intent here is not to scare you into a more sustainable mindset but to provide evidence of the enormous business advantages to becoming more purposeful about whatever set of economic, social, and governance goals make the most sense and are the most actionable, for you and your organization. Within these challenges lie incredible opportunities. Consider the fact that, in 2017, the Business and Sustainable Development Commission mapped the economic prize available to businesses if SDGs are achieved and identified *\$12 trillion* worth of annual market opportunities in food and agriculture, cities, energy and materials, health, and well-being. That’s a lot of upside!

Robeco, a Netherlands-based asset management firm, takes the lead among a growing number of institutional investors who are seeing and realizing financial gains through sustainable investments. As of June 2021, the pioneer of sustainable investing had more than 177 billion euros (about \$204 billion) in assets that are integrating environmental, social, and governance goals.⁸ An early adopter of sustainable investing, having begun quietly in the mid-1990s, sustainability has been at the core of Robeco’s investment activities for nearly three decades.

Then Larry Fink, leader of BlackRock, the world's largest asset manager with \$9.46 trillion in assets under management as of 2021, grabbed headlines in 2018 when he announced in his CEO letter that businesses must "not only deliver financial performance, but also show how it makes a positive contribution to society," warning BlackRock may stop investing in companies that fail to do the latter.⁹ (More on the investor's role later.)

With this rising tide of institutional investors who view sustainability goals as determining factors for their investment dollars, sustainability can become your differentiator in the competition for capital. You will also be in a better position to compete for human capital. As younger generations of talent consider where to build their careers in an extremely tight job market, whether a company is serious about its sustainability goals can be a deal breaker. And a sustainability mindset that's properly embedded across strategy and functions can lead to more innovation, better products, and greater efficiencies in process that will ultimately be seen in the bottom line.

These next chapters will show you exactly how that balance between pragmatism and altruism works in practice. We'll look at leaders who not only have a clear sense of purpose but also can translate their deeply held values into business success. (On a side note, many organizations have different terms for the same goals—ESGs, SDGs, and so on. The realm of sustainability is an alphabet soup of acronyms, but for the purpose of this book, we will use the term SDGs, referencing the United Nations' 17 interlinked goals ranging from ending poverty in all its forms to education access to gender equality to affordable and clean energy.)

We will touch on multiple SDGs throughout this book. But our primary focus is on leadership. If the SDGs are the spokes of the wheel, sustainable leaders are the hub. These individuals have figured out how to embed sustainability within the complex components of their organizations, seeing how all the different dots connect, influence, and affect each other. Sustainable leaders take these values a step further, aligning them with the broader ecosystem of suppliers and customers, society, and the government. They are not just skilled at managing their stakeholders, as any leader should be; they are intellectually curious about who these stakeholders are, how they can benefit from the sustainability goals, and how they can take a more collaborative approach.

Going for Bold

To be clear, this process doesn't always look pretty, nor should it. Many of those we spoke with are leading "hard to abate" businesses, such as bp, and, of course, utility companies such as Duke Energy. But what matters more is that they are taking significant steps, whether that's investing billions in cleaner energy, divesting "dirty" assets, or hiring significantly more diverse candidates for their senior management teams in traditionally male-dominated industries. One could even argue that the changes implemented by these more problematic businesses will have greater impact on the world.

In the coming chapters, you will learn more about the secret sauce of sustainable leaders, such as Henrik Henriksson, who made a bold career switch, from Scania, a 50,000-employee Swedish truck manufacturer, to lead the 50-person startup Green Steel, which is the world's first producer of coal-free steel. And Adidas CEO Kasper Rorsted, who is committed to ending plastic waste in shoe and clothing manufacturing with product lines like the Parley shoe, made from plastic recycled from the ocean. And Ilham Kadri, CEO of chemicals giant Solvay, who launched a culturally transformative diversity, equity, and inclusion program with concrete goals to be met by 2025. Among other things, her sustainability goals include building structured mentorship programs, creating a Code of Integrity, and ensuring fair recruitment, with the target of having a shortlist for all mid- and senior-level openings comprising 50% of underrepresented groups.

These sustainable CEOs commit to solving the problem without knowing the solution. But they can get there because they tend to have strikingly high "LQs"—the humility to learn and the desire to quickly grow and adapt their skillsets—qualities I firmly believe will ultimately determine the winners and losers in this race toward sustainable transformation. These leaders are also willing to commit to a certain direction, even if they don't realize the glory or yield the benefits before the end of their tenure. I am talking about decisions that can have a long-term impact spanning decades. Investment in disruptive innovations takes enormous courage.

Of course, the concept of a purpose-driven business model is nothing new. It has only been since the latter part of the last century,

when the primacy of the shareholder and quarterly profit statements took hold, that the notion a company had an ethos fell by the wayside. Kellogg's, for example, was about bringing wellness to the masses before it became a global food manufacturer. More than a century ago, Avon built its business model on the empowerment of women, who gained a degree of economic independence by becoming representatives. More modestly, Milton Hershey founded his chocolate company to make luxury more accessible and affordable and create "moments of goodness." Quaker Oats' early years involved land giveaways and creating livelihoods for its workers.

What's different today is the level of complexity. Blending that commitment and drive for concrete results in a global company where decisions and actions ripple outwards, oftentimes with unintended consequences, isn't easy. Being a sustainable leader takes a unique cocktail of passion, empathy, calculation, vision, and guts. Although it's risky not to make moves toward building a more sustainable business, spending several billions on a fleet of new ships—like Maersk—not even knowing where you're going to find an adequate supply of clean fuel, takes incredible audacity.

You know what to do. Now consider this your invitation to read on and discover exactly how. You can translate your commitment into actual, measurable progress by studying the moves of sustainable leaders such as Duke Energy's Lynn Good, and the dozens of other shining examples I will describe on these next pages.

Here are the rewards when you get it right: as of 2021, Duke Energy decreased carbon dioxide emissions by 44%, sulfur dioxide emissions by 98%, and nitrogen oxide emissions by over 83%. An industry leader in low-carbon intensity, Duke Energy also announced a new goal to achieve net-zero methane emissions from its natural gas distribution business by 2030. In early 2022, the company took additional steps toward action on climate change with the expansion of its 2050 net-zero goals to include Scope 2 and certain Scope 3 emissions. And the regional energy giant continues to oversee the largest coal plant closures in the industry, with a full exit of coal by 2035.

Measurable Milestones

Since 2010, Duke Energy

- **Retired** 56 units at coal-fired power plants, totaling approximately 7,500 megawatts (MW) of capacity

Since 2011, Duke Energy

- **Reduced** water withdrawn for electric generation by 980 billion gallons
- **Cut** approximately 80% of solid waste, diverting nearly 86,000 tons from landfills

As of year-end 2021, Duke Energy

- **Reached** a cumulative, multiyear reduction in customer energy consumption of over 21,000 gigawatt hours (GWh) and a reduction in peak demand of nearly 7,000 MW.¹⁰

Meanwhile, the company made major strides in renewables, having contracted, owned, or operated 10,500 MW of renewable energy (wind and solar) with plans to increase that amount to 16,000 MW by 2025 and 24,000 by 2030. Duke Energy will also make \$600 million in battery storage investments by 2025 and has engaged with solar developers in the Carolinas to fundamentally change the interconnection process in North Carolina and design a breakthrough net-metering framework in South Carolina.

Following the coal ash spill in the Dan River, Duke Energy also achieved a milestone settlement for the recovery effort that will provide immediate and long-term cost benefits for customers over the next decade, resolving the remaining major issues on coal ash management in North Carolina.

I cannot stress enough how epic in size and scope these milestones are for a major utility company that must balance reliable power supply

with doing right by the environment. On the face of it, these competing interests could not be more opposed. How did Duke Energy make these strides, and what is that secret sauce that enables a company in one of the most challenged industries to continue building momentum? Again, it comes down to sustainable leadership, which views meeting ESG goals as integral to the success of the company as profit growth.

“Our climate strategy and business strategy are exactly the same,” Lynn told me.

It’s not an adjunct; it’s not another initiative; it’s not something we keep track of on the side. Rather, it is completely integrated with the overall strategy of the company, which is to be a leader in the clean energy transition. So it shows up in day-to-day operations and day-to-day capital deployment. Every investment is reviewed through the lens of how it positions the company to take on more renewables or reduce carbon emissions. So that transition toward sustainability is deeply ingrained in the way we talk about the business, the way we evaluate someone’s performance, organizational changes, and the way capital is deployed. It’s an approach that’s been impactful and powerful for us.

Notice that, when Lynn speaks, she uses the pronoun *we* a lot, and not in the sense of the “royal we.” She understands that this transition does not happen without total buy-in of the entire leadership team: the CEO, senior executives, and the board. Although she goes much further, bringing in people with field experience to join in strategy and innovation efforts—an inclusive approach that will be described in more detail in Chapter 6—it’s the senior leadership team that owns the success or failure of a sustainability strategy. They alone are uniquely positioned to drive the level of transformation needed to balance sustainability goals with the long-term viability of the business. The ability to inspire is another mark of a true sustainable leader. That passion and commitment must be felt by everyone and become a permanent part of a corporation’s culture and identity.

Again, I will drill down in more detail about what that looks like through actions and examples in the chapters to follow. Depending on

your industry and the size of the business you are leading, there are many ways to get there. But once you start seeing progress, that feeling of relief, pride, and accomplishment is universal.

As Lynn puts it: “There’s a lot of enthusiasm about our clean energy transition because it represents real growth. We can expand the business and feel good about the impact we’re having on our communities and the environment. We are now a part of the green movement. This is . . . us.”

Sustainable Leadership Takeaways

1. Sustainability is no longer a nice-to-have, it’s a must-have, and simply appointing a chief sustainability officer isn’t going to cut it. There needs to be a wholesale embrace of value creation at all levels of an organization and across every function.
2. Move up the goalposts. Integrating sustainability into your strategy and operations while anchoring it to your company’s purpose must become standard procedure. This is a question of the very legitimacy of your business and a license to operate. Moving mission statements will no longer suffice.
3. Those at the very top own the success and failure of a company’s sustainability goals. Who is on the leadership team, and how that leadership team operates together, has the potential to enable or torpedo an organization’s progress.
4. A sustainable mindset goes beyond risk management. It’s not just about avoiding fines or burnishing a business reputation. It’s the recognition that within these challenges lie opportunities for growth over the long term.

(continued)

5. The benefits of sustainable leadership are tangible and intangible:
 - a. A sustainability mindset that's translated into strategy and properly embedded across functions can lead to more innovation, better products, and greater efficiencies in process, which will ultimately be seen in the bottom line.
 - b. Taking societal impact into account when setting strategy spurs innovation and helps companies to identify new products, services, and business models.
6. It takes multilevel systems thinking. Leaders, and those around them, need to be able to see and understand the complex web of cause and effect across market, social, environmental, and regulatory variables.
7. And it takes stick-to-it-iveness. Sustainable leaders also must be prepared to spearhead true long-termism: making disruptive investments with the courage and resilience to stay the course in the face of setbacks and pressure from short-term-oriented stakeholders.