



Divides and Dividends: Leadership Actions for a More Sustainable Future

Consumer

2022

Russell
Reynolds
ASSOCIATES

Consumer firms that meet the rising demand for more sustainable business models and supply chains will be the market leaders of tomorrow.

Sustainability is now *the* defining issue of our time.

Society, employees, investors, and consumers are looking to firms to curb their environmental footprint, prioritize DE&I, boost employee wellbeing, and positively impact the world around them.

The transition to sustainable business practices will demand a total rethink of strategy and operational models. The journey will not be easy. Hard decisions and complex trade-offs will be inevitable. Yet it can be done.

We set out the progress firms have made so far—and how leaders can accelerate their sustainability journeys, unlock commercial success, and build a greener, fairer future for all.



A global survey

We set out to understand the maturity of organization's sustainability journeys—and how ready leaders were to lead the agenda.

147

C-suite executives

262

Next-generation leaders

996

Employees



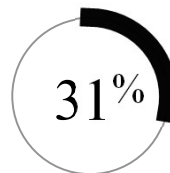
Progress made towards sustainability



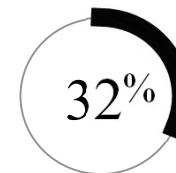
The barriers to sustainable business



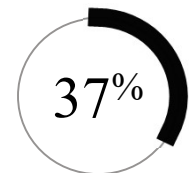
How prepared executives are to lead the agenda



Americas



EMEA



APAC

ESG has emerged as a critical topic in the consumer industry



"We know **we cannot achieve our goals alone**. When we work together, we can accelerate the just transition at the same time as protecting, renewing, and restoring the planet and ensuring food systems can continue to nourish people for generations to come. Even as our company has grown and revenues increased, we are seeing a reduction in emissions."

- Target child labor in cocoa supply chains by providing financial incentives for farmers enrolling children in school. Aiming to reach all producers by 2030
- 97.2% deforestation free in primary supply chains. Working to eliminate coffee and cocoa deforestation and accelerate regenerative agriculture practices
- Decoupled emissions from growth



"We're committed to creating products and services that inspire and support people to make healthy lifestyle changes, **consume in more circular ways**, and live better everyday lives. Our ambition is to become a climate positive business by 2030."

- Replacing the iconic meatball with more plant-based alternatives
- Partnered with WWF and the Ellen McArthur Foundation to create a circular product business
- Making LED bulbs 35% more energy efficient to have a scalable reduction on energy consumption and waste



"As a company who **looks to children as our role models**, we are inspired by the millions of kids who have called for more urgent action on climate change. We believe they should have access to opportunities to develop the skills necessary to create a sustainable future."

- Inspiring children to learn about sustainability through play
- Circular business model which allows products to be passed between generations furthered by LEGO Replay
- 2030 ambition for all products to be from sustainable materials
- Banning single-use plastic from offices, factories and products by 2025



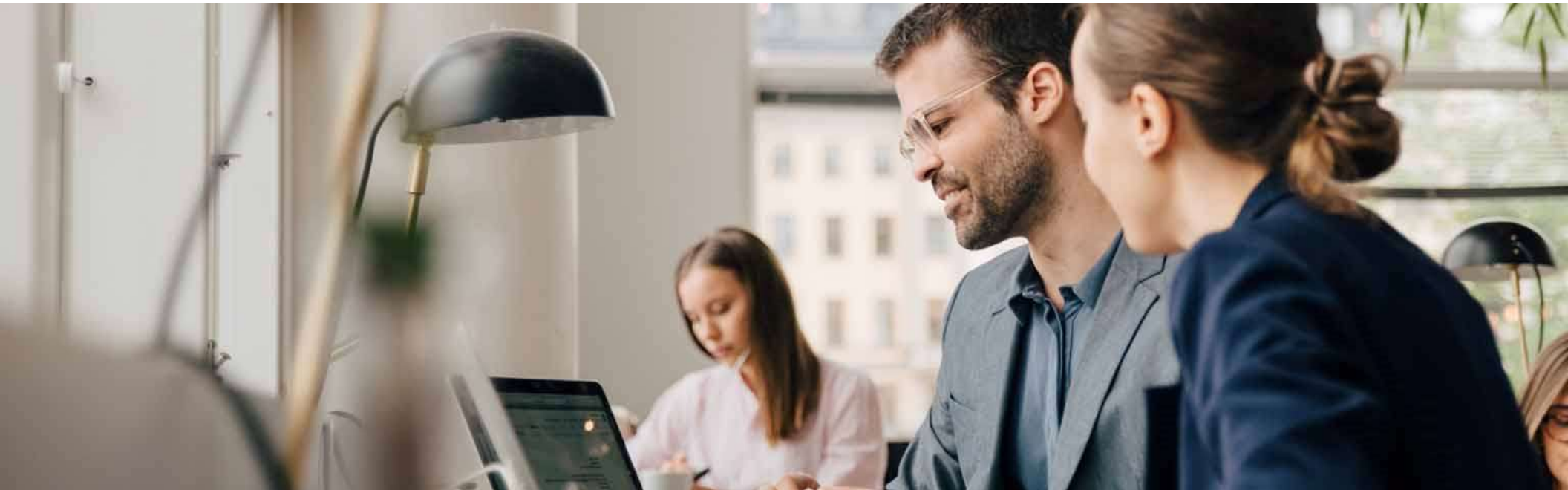
"In a year where the technology we make touched more lives than ever, teams across **Apple never stopped innovating to protect the planet**. We've begun to decouple business growth from emissions – while our revenue grew 33%, our net emissions remained flat."

- Combat unavoidable emissions investing in natural climate solutions. Removing 1 million metric tons of carbon dioxide a year through the Restore Fund
- On track to be carbon neutral for entire product footprint by 2030
- Apple Trade In Program and recycled sources working towards goal of making products without mining

01

A radical opportunity

The sustainability advantage



A radical opportunity

The transition to sustainable business practices is no longer just the right thing to do. It is also the smart thing to do.

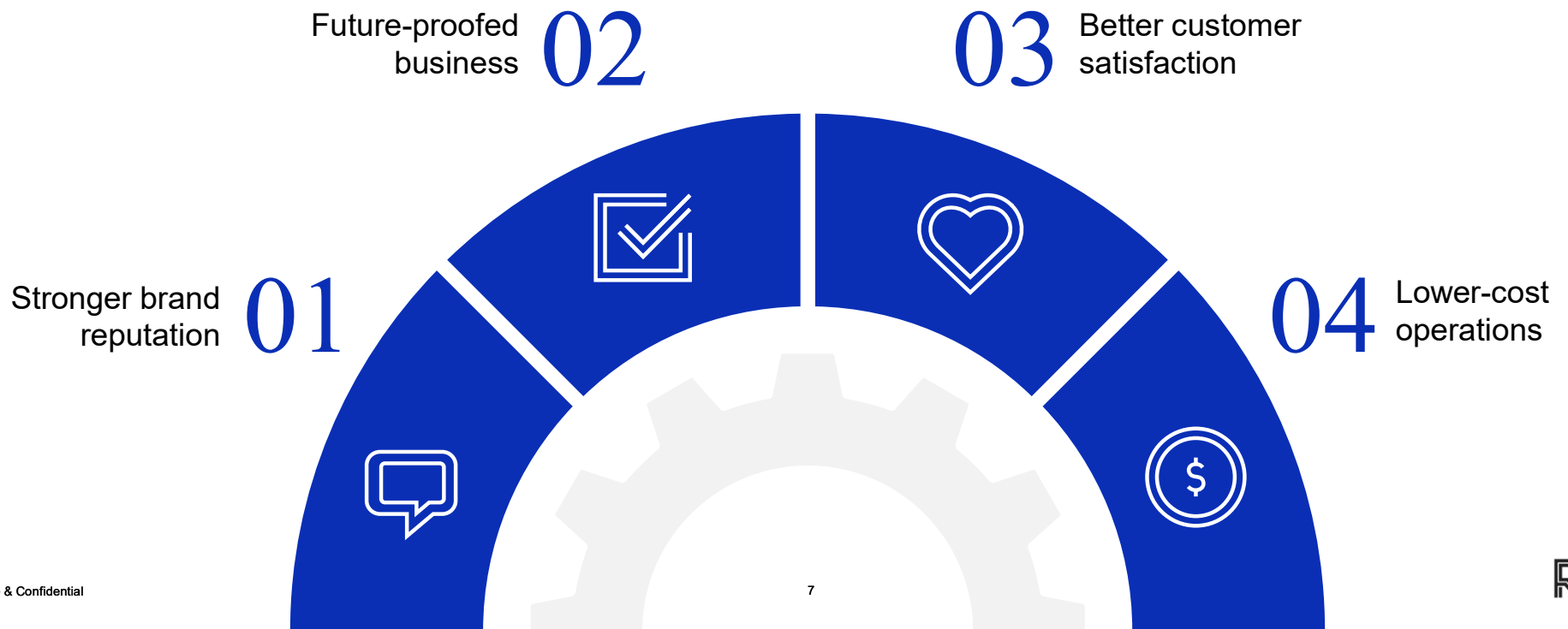
Significant commercial benefits await those who embed sustainability across business strategy—from faster innovation, to more engaged employees and customers, to faster top-line growth.

The question is whether consumer firms are ready to unlock this radical opportunity.

Sustainability: A path to resilience and relevance

Consumer firms expect myriad benefits from the transition to sustainable business practices.

How do you think your organization will benefit from future sustainability actions?



Key factors driving ESG focus in consumer businesses

We believe several macro trends are already driving increased growth of investment in sustainable practices across consumer businesses

Consumer Purchasing Power

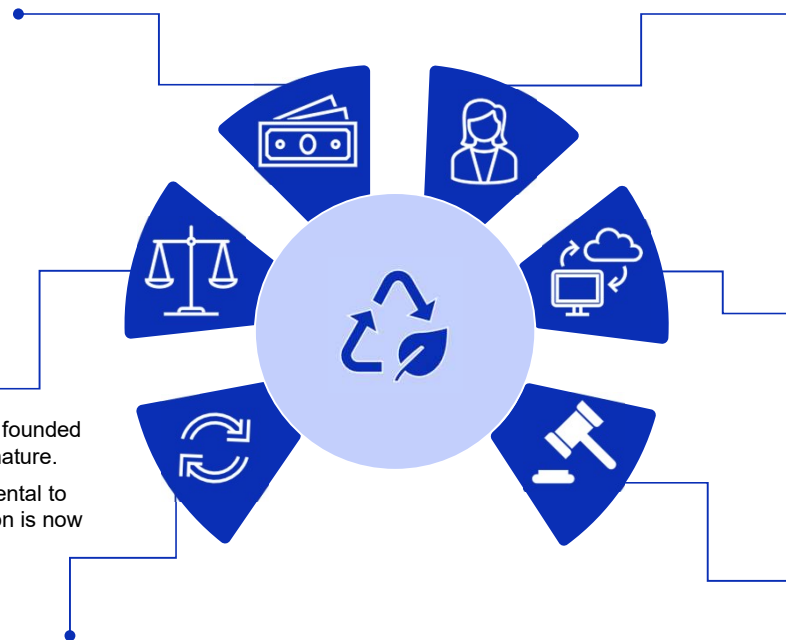
- People are gravitating towards companies that share their ideals. In this climate, that translates to companies prioritizing positive social and environmental impact in their business models.
- Socially conscious shopping is growing on a scale not seen before, redirecting spending power towards companies who are transparent about their environmental impact.
- MSCI: a survey of millennials showed that 90% tailor their investments to align with their values.

Unique Selling Point

- Sustainability has been brought to the forefront by brands founded on principles of business not harming, but rather helping nature.
- It is no longer just environmental scandals that are detrimental to brands. Not actively moving the needle in the right direction is now damaging to brand power.

Need for Innovation

- As it becomes easier for competitors to enter the market with the growth of e-commerce, companies need to set themselves apart from competitors with innovative and sustainable adaptations and new products.
- This high competition also leaves no room for repelling customers with poor practices.



War for Talent

- Employees are standing up and preferring to work at companies that reflect their values. To retain top talent within the tense labor market, companies must meaningfully invest in inclusive sustainable practices at all levels and transparently communicate their priorities to employees.
- PwC: a recent study found that millennials are 5.3x more likely to stick with an employer if they feel connected to their corporate purpose.

Advancing Technologies

- Technological advancements across the consumer supply chain make sustainability an achievable answer.
- Improvements in renewable energy efficiency and storage, electric vehicle engineering and plant-based alternatives make greener choices accessible for more businesses with less of a detriment to revenue.

Role of Regulators

- Even as clear global regulatory standards are not yet fully developed, ESG reporting is being demanded by the general public and as such is important to brands given the reputational risk.
- The cascade of hiring for the new role of Chief Sustainability Officer is emerging as a requirement to ensuring business practices are environmentally, socially and economically responsible.

02

The story so far

Understanding the *real* state of progress today



Consumer firms are at the early stages of their sustainability journeys

Sustainability is easy to talk about. But much harder to deliver.

Despite a host of net-zero commitments and statements on DE&I, our research shows that consumer firms are yet to make significant progress towards sustainable business practices.

Our research shows that many consumer firms just see sustainability as a brand-management exercise. Yet sustainability is so much more than a reputational risk to manage.

Only when leaders see sustainability as a lever for value creation will they have the courage to unleash the total business transformation that sustainability demands.

Sustainability is not yet infused across strategy or operations

Only

40%

of consumer C-suite leaders say their organization has a **sustainability strategy** that's been acted on and clearly communicated.

Only

43%

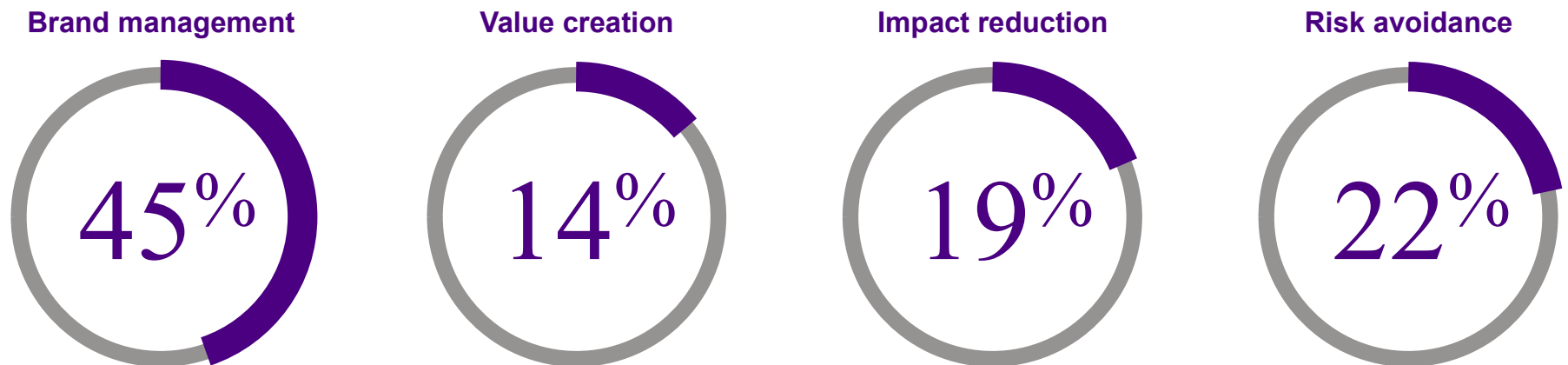
of consumer C-suite leaders expect to make **significant/great deal of progress** embedding sustainability across strategy and operations in next 5 years.



Many consumer firms look at sustainability through a brand lens.

Consumer firms are at the early stages of their understanding of the value sustainable business practices can bring their organization—and the world around them.

What is motivating your sustainability actions?



Top challenges

The path to sustainable business practices will not be easy. Consumer firms are running into many challenges on their journeys.

What are the greatest barriers leaders face in making sustainability happen?



Slow changing company culture



37%



Organizational complexity/bureaucracy



34%



Outdated perceptions that no longer fit the organization



27%



Lack of drive from senior leadership



27%



Not having the right incentives in place



27%

03

The role of leadership

Go much further, much faster

Leadership + Culture = Action

Sustainability action starts at the top.

Without great leadership, consumer firms will struggle to make progress towards sustainable business models and operations.

Unfortunately, our research shows many of the leaders at the helm of consumer firms today lack the critical skills they need to galvanize action.

Yet there are encouraging signs that next-generation leaders coming through the ranks can help change organization's sustainability trajectories.

We set out how organizations can engage leaders today and tomorrow to foster a culture of sustainable leadership—and go much further, much faster.



Leadership issues

Our research shows many executives lack the skills that are needed to embed sustainability across their organizations.

Attributes that C-suite respondents think their senior-most leaders display



Route to the top: recently appointed senior ESG leaders

RRA analyzed the backgrounds of 22 senior ESG leaders to gain further insight into the typical profile. Our data reveals that these leaders are predominantly **female**, overwhelmingly **being promoted into the role** versus being recruited in and bring **cross-functional** expertise to the position within the consumer sector.



55%

of the newly appointed leaders are **female**, which contrasts with traditional male domination in other senior roles



73%

were **appointed internally** showing that outside expertise is not being brought in for this role



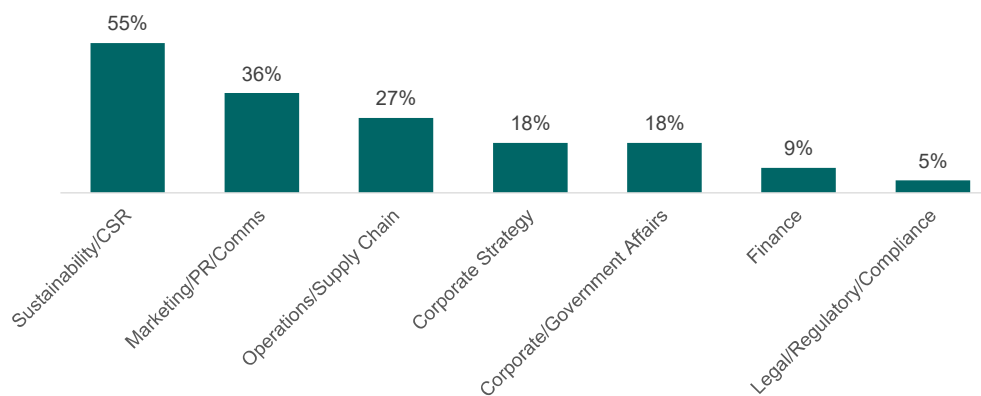
4.4yrs

Is the average tenure of these leaders

Source: RRA Analysis; includes recent appointees at 22+ consumer companies

Senior ESG leaders are likely to have experience across multiple functions, most often sustainability, communications and operations.

% with prior experience in function



- 86% come from the consumer sector, which is in line with the high number of **internal appointments**
- 23% have **experience in 3+ functions**, suggesting that leaders could benefit from exposure to multiple parts of the business
- 23% have a **degree in environment and sustainability studies**



Next-Generation Leaders at the Vanguard

39%

**of next-generation leaders have taken on
3+ job responsibilities in the past 2 years.**

Top actions:

- Changing internal processes
- Identifying new ways to make products/workplace more sustainable
- Creating or redesigning products/services to reduce their environmental impact

04

How we can help

Leadership actions

Sustainability must become a key part of what it means to be a successful leader—today and tomorrow.

Key actions include ensuring sustainability features in your selection, rewards, development, and succession practices.



Selection



Rewards



Development



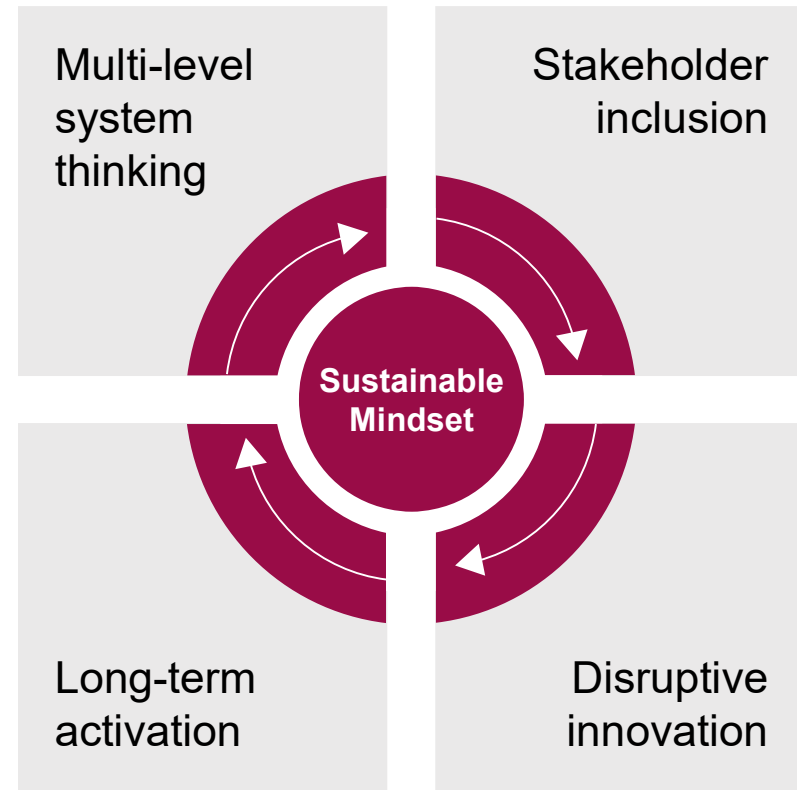
Succession

Skills to prioritize

RRA's Sustainable Leadership Model

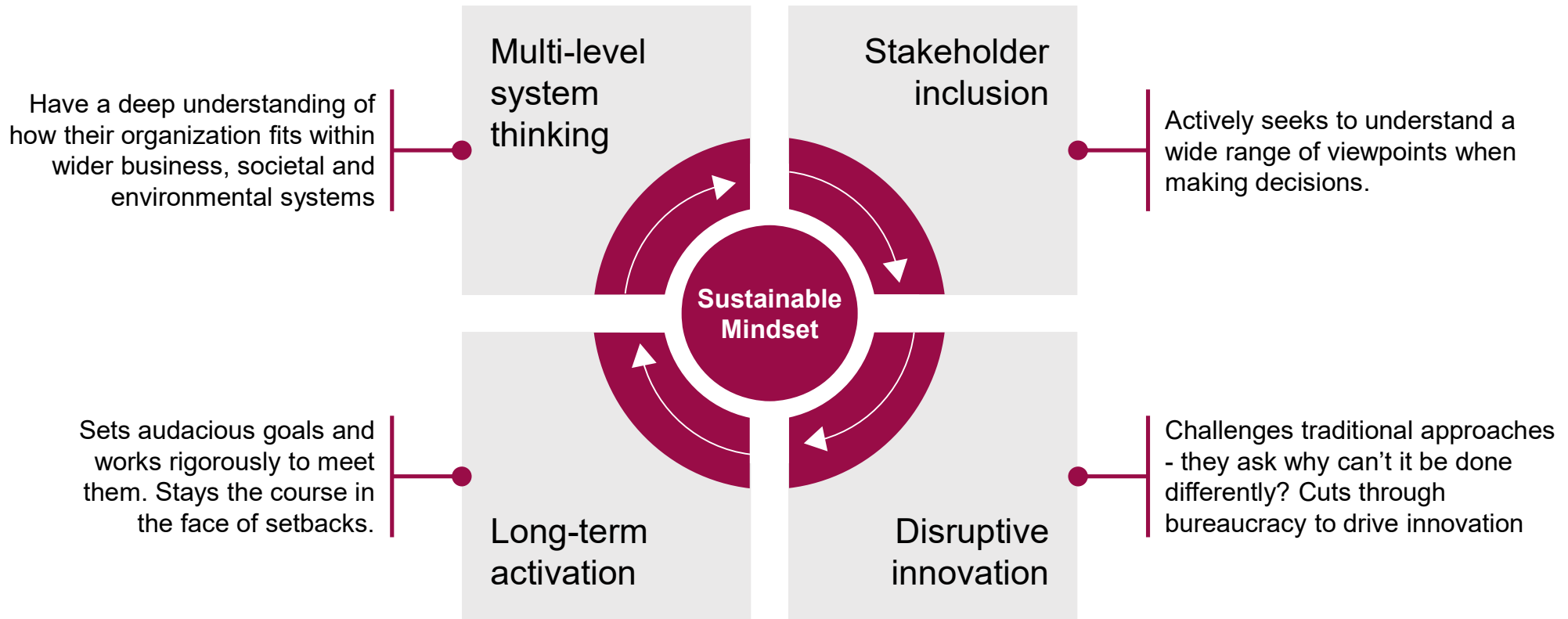
The Sustainable Mindset

Purpose-driven belief that business is not a commercial activity divorced from the wider societal and environmental context in which it operates.



Skills to prioritize

RRA's Sustainable Leadership Model



How RRA can help



Board advisory

Leadership advisory

C-suite and board search and selection

Sustainability/ESG leader search and selection

“My company’s board needs to understand stakeholder perspectives and embed a sustainability lens in their decision-making”

“My company’s leadership needs to embed a sustainability lens into their team and organizational culture”

“My company needs to embed a sustainability lens across our C-suite and board”

“My company needs help identifying executives to lead our sustainability and/or ESG strategy, business units, or investments”



- Analyze stakeholder priorities and identify opportunities to strengthen board oversight of ESG risks and opportunities
- Assess strengths and weaknesses of board composition against sustainability strategy
- Assess board culture, structure, and director onboarding/education vis-à-vis sustainability strategy

- Build a Top Team culture that equips it to engage with the complexities of sustainability
- Assess and develop sustainable leadership capability in executive teams
- Embed sustainable leadership into succession planning
- Use Culture Analytics to understand how culture can hinder or enable the sustainability journey
- Identify and assess CEOs, board and C-suite leaders for a sustainable mindset and leadership capability

- Identify and assess Chief Sustainability Officers and Heads of ESG
- Identify and assess Sustainable Finance leaders
- Identify and assess leaders for sustainability-oriented business units

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