



Divides and Dividends: Leadership Actions for a More Sustainable Future

Industrial

2022

Through innovation and reinvention, industrial companies can lead the way to a greener, fairer future.

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.

281

C-suite executives

504

Next-generation leaders

1482

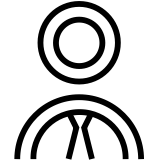
Employees



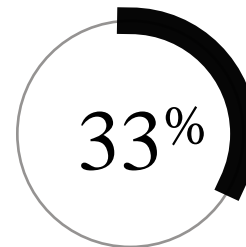
Progress made towards sustainability



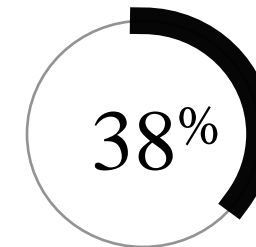
The barriers to sustainable business



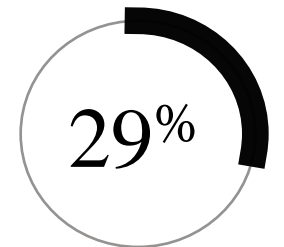
How prepared executives are to lead the agenda



Americas



EMEA



APAC

Sustainability has been the Driving Issue in Industrial Companies



“Honeywell is committed to become **carbon neutral** in its operations and facilities by 2035. These initiatives represent a **continuation of the company’s sustainability efforts** since 2004, which have already driven a more than **90% reduction** in the greenhouse gas intensity of its operations and facilities.”



As a scientific leader, DuPont will establish sustainability goals to support **the transition to a clean low-carbon economy** using the UN Sustainable Development Goals on Affordable and Clean Energy (7) and Climate Action (13) as our inspiration.

So far, we have been able to **expand our renewable electricity sources** and credit to **20% of our total electricity and operating 27 sites utilizing 100% renewable electricity.**”



“For the BMW Group, **sustainability is paramount.** Our commitment can be clearly seen in the recent years and decades with the implementation of significant standards in the life cycle assessment of BMW vehicles - starting with the resources used, through energy consumption, to the recycling rate.

Through our commitment, we have brought about a **53% reduction in CO2 emissions in the European new vehicle fleet in the period from 1995 to 2020.**”



“Grainger recognizes we have an **obligation to operate sustainably** and with a long-term, fact-based view of **critical issues regarding the environment**, society at large and corporate governance.

Through our sustainability efforts, we have managed to achieve a **92% recycling rate across our distribution centers.**”



“**By investing in infrastructure and innovative clean energy technology**, NextEra Energy is helping to create a sustainable energy future that is **affordable, efficient and clean.**”

NextEra Energy has been working to reduce our carbon dioxide (CO2)-emissions rate for decades, and **as of 2021 has achieved a 58% reduction, compared to a 2005 adjusted baseline.**”

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.

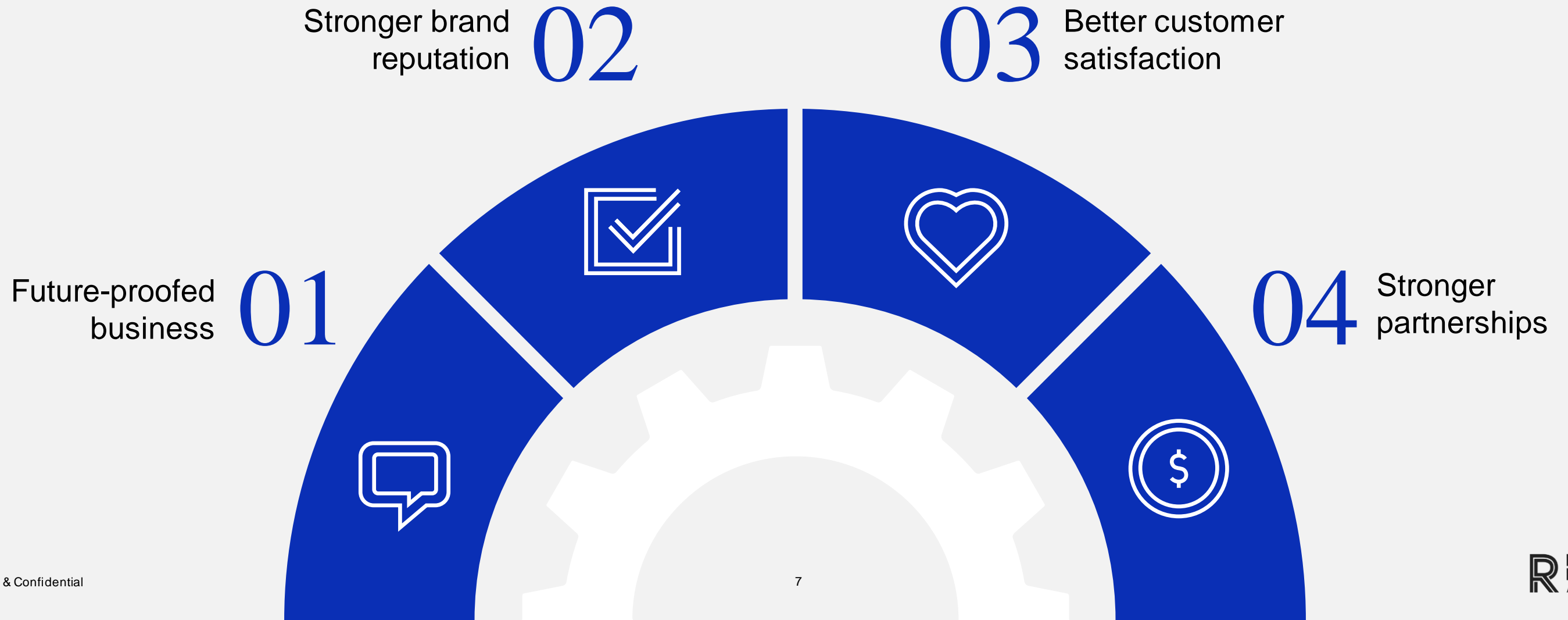
Significant commercial benefits await those who embed sustainability across business strategy—from faster innovation, to more engaged employees and customers, to faster top-line growth.

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

Sustainability: A path to resilience and relevance

Industrial companies 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 Industrial & Manufacturing

We believe several macro trends will drive increased growth of investment in sustainable practices

Supply chain sustainability

- Supply chains represent over half of most organization's carbon emissions.
- Companies should conduct an analysis of their value chain (including suppliers, services, and materials) to identify material risk of contributions to greenhouse gas emissions.

Regulators are stepping in

- Regulations are beginning to pop up in order to hold firms accountable, such as the recently approved Supply Chain Due Diligence Act in Germany.
- In June 2021, the G7 Finance Ministers and Central Bank Governors clearly committed to addressing ESG challenges and moving quickly toward deeper, multilateral economic cooperation.

Employee Equity

- Employees are demanding compassionate, inclusive, and equitable career experiences; as the war for talent continues, companies must invest in sustainability initiatives and strategies in order to attract and retain the top talent.
- Companies should address diversity in leadership and income equality, including a gender pay gap



Consumers are demanding more

- In one survey, 66 percent of all respondents, and 75 percent of millennial respondents said they consider sustainability when making a purchase.
- As younger generations begin to make up a greater portion of existing markets, the demand for sustainable practices from businesses will only increase

Technologies are advancing

- As development of more efficient and sustainable technologies continues to grow, there has been a greater push by companies to adopt these technologies and integrate them into their broader infrastructure. These adoptions have allowed current leaders in ESG to make great strides in achieving their goals of becoming carbon neutral within the next decade.

Profitability

- Executing ESG effectively can help combat rising operating expenses, affecting operating profits by as much as 60 percent.
- Upward of 70 percent of consumers surveyed on purchases in multiple industries, including the automotive, building, electronics, and packaging categories, said they would pay an additional 5 percent for a green product if it met the same performance standards as a nongreen alternative.

02

The story so far

Understanding the *real* state of progress today

Industrial 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 industrial firms are yet to make significant progress towards sustainable business practices.

Our research shows that many industrial 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

36%

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

Only

36%

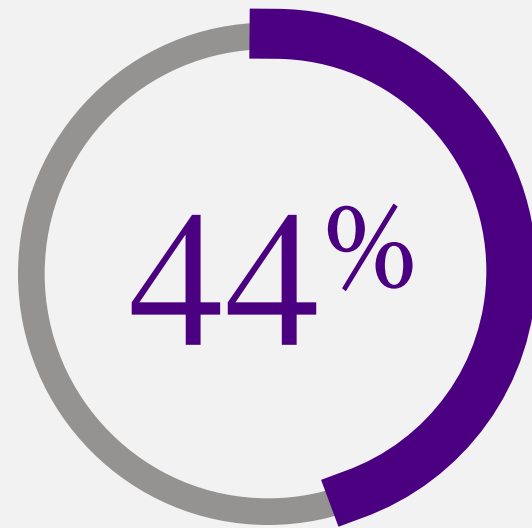
of C-suite leaders expect to make **significant/great deal of progress** embedding sustainability across strategy and operations in next 5 years.

Many industrial firms look at sustainability through a brand lens.

Industrial 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?

Brand management



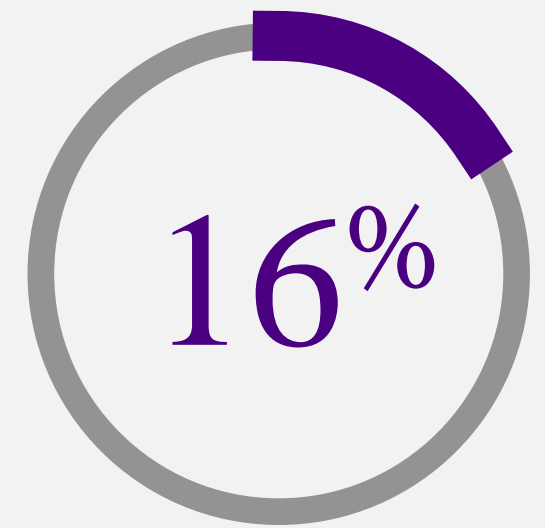
Value creation



Impact reduction



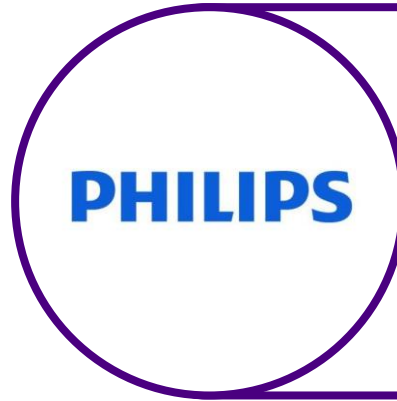
Risk avoidance



Industrial companies are innovating to create all types of value – financial, social and environmental



- After witnessing elderly farmers in China laboring to work with heavy pesticide tanks strapped to their backs, CEO Peng Bin decided to reorient the company's focus from consumer drone technology to AgTech to increase the quantity and quality of crops produced while lessening the strain on smallholder farmers
- Rebranding from Xaircraft to XAG, the company's products enable farmers to use less pesticide, reduce carbon emissions and physical strain on workers, and farm previously inaccessible or unprofitable land



- As part of its 'Healthy people, Sustainable planet' strategy, Philips takes back and repurposes all large medical systems equipment that its customers return
- Over the last decade it has returned 7000+ tons of refurbished medical equipment to the market and incorporated 6000+ tons of recycled plastics into new consumer products
- Philips aims to generate 25% of sales from circular products, service and solutions by 2025



- As part of its commitment to reuse or recycle 1M metric tons of plastic by 2030, Dow partnered with Indian startup company Lucro to create new products and packaging with the recycled inputs
- Dow provides material science, expertise and testing capabilities at its Indian facilities, enabling Lucro to develop and manufacture new products using post-consumer recycled (PCR) plastics

Top challenges

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

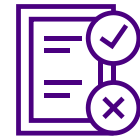
What are the greatest barriers leaders face in making sustainability happen?



Slow changing company culture



34%



Organizational complexity/bureaucracy



30%



Perceptions that your customers don't want this



28%



Lack of drive from senior leadership



27%



Lack of organizational investment



27%

03

The role of leadership

Go much further, much faster

Leadership + Culture = Action

Sustainability action starts at the top.

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

Unfortunately, our research shows many of the leaders at the helm of industrial 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





Next-Generation Leaders at the Vanguard

41%

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.

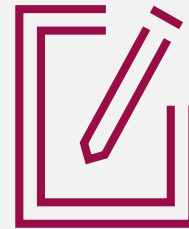
Key actions include ensuring sustainability features in your selection, rewards, development, and succession practices.



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

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



- 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



Leadership advisory

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



- 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



C-suite and board search and selection

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



- Identify and assess CEOs, board and C-suite leaders for a sustainable mindset and leadership capability



Sustainability/ESG leader search and selection

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



- 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