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# Business at its Best: Driving Sustainable Value Creation

Five Imperatives for Corporate CEOs

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## About CECP

The Committee Encouraging Corporate Philanthropy (CECP) is the only international forum of business leaders exclusively focused on raising the level and quality of corporate philanthropy. Membership includes more than 180 global CEOs and chairpersons of companies that collectively account for more than 40% of reported corporate giving in the United States.

Founded in 1999 by the actor and philanthropist Paul Newman (together with John Whitehead, Peter Malkin, and other business leaders), CECP continues to inspire and challenge leaders in the private sector to find innovative ways to meet community needs and to lead the way towards better alignment of business and societal strategies.

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# Preface

Can businesses sustain meaningful growth, drive innovation, and, simultaneously, address some of the most important societal challenges facing communities and nations all over the world? The CEOs whose insights form the basis of *Business at its Best* see the answer to that question as an unequivocal “yes.”

These CEOs are helping their companies identify business opportunities at the convergence of core strategy and societal issues. They are moving beyond traditional ideas of philanthropy, but beyond traditional strategy as well, and they are looking for competitive advantage and sustainable profitability in new ways.

In this converged space between financial success and societal progress is “Sustainable Value Creation,” the subject of this joint report. Based on extensive interviews and polling with CEOs across industries and around the world, the report is not a step-by-step guide, but rather a set of tools, frameworks, and other practical experience that can help companies accelerate their own journey.

Sustainable Value Creation is, above all, a *business strategy* offering compelling ideas about achieving growth and high performance. Certainly it presents numerous challenges to current assumptions and ways of conducting business. Yet these challenges are being addressed by many pioneering CEOs whose ideas are represented in this report. The result is a set of relevant and compelling insights made available to leaders from all industries and geographies who seek to create competitive advantage by designing products, services, and practices that deliver both commercial and community benefits.

We have been honored to bring to bear on this important strategic business opportunity the experience and complementary capabilities of our two organizations: the Committee Encouraging Corporate Philanthropy (CECP)—an international forum of CEOs focused on raising the level and quality of corporate engagement on societal issues—and Accenture, a leading technology, consulting, and outsourcing company with experience across traditional business strategy, sustainability, and international development.

*Business at its Best* builds on much of the recent and relevant work done by our organizations. CECP’s 2010 report, *Shaping the Future*, based on research by McKinsey & Company, laid important groundwork for helping CEOs see the possibility of addressing societal problems in a way that simultaneously delivers tangible bottom-line results. Accenture’s report, *A New Era of Sustainability*, written with the United Nations Global Compact, explored strategies for embedding sustainability more deeply in the business practices and supply chains of global companies.

Both research initiatives highlighted a common concern among senior-level executives: having a vision is one thing; implementing it is another. Therefore, this report focuses on moving beyond theory to present actionable insights that CEOs can bring to their organizations today.

We invite you to join us in this ongoing conversation about “business at its best”—a strategy unrestricted by the traditional division between choosing what’s best for the business and what’s best for society. It’s a collaboration requiring both insight and resolve, but one with potentially immense benefits for all.



Bruno Berthon, Managing Director, Sustainability Services, Accenture



Charles Moore, Executive Director, Committee Encouraging Corporate Philanthropy

# Executive Summary

## What does a business look like at its best?

This report makes the case that a business at its best is a company that has overcome the traditional strategic and operational divisions between advancing the performance of the enterprise and promoting the wellbeing of citizens and communities. It's a company that recognizes an opportunity to play a positive role in addressing fundamental societal issues—seeing those issues not merely as problems to be addressed through charity alone, but instead as the seeds of innovation and growth.

**This mode of business, Sustainable Value Creation, is a core business strategy focused on addressing fundamental societal issues by identifying new, scalable sources of competitive advantage that generate measurable profit and community benefit.**

And, as this report makes clear, it's more than theory: Leading companies from a variety of industries are already pursuing groundbreaking initiatives at the convergence of core strategy and societal benefit. For example, in rural Mexico, PepsiCo faced business constrictions on supplies of corn provided to its factories because regionally supplied products often fell below quality standards. Analyzing this strategic issue, senior leadership recognized that important root causes were in the existing skills of local providers and an inadequate farming and transportation infrastructure.

PepsiCo contributed to the overall development of low-income farming families in corn-producing communities by means of technical and business training, transfers of technology, and farming contracts, therefore reducing costs and improving product quality—while also raising the standard of living in the community. This is the win-win of Sustainable Value Creation: helping the business and helping people at the same time.

## Accelerating the journey: Five key imperatives

Based on extensive CEO interviews and polling—as well as analysis and experience from the Committee Encouraging Corporate Philanthropy (CECP) and Accenture—*Business at its Best* is organized around five key imperatives for planning, managing, and scaling a Sustainable Value Creation strategy (see figure on next page) and provides for each some practical guidance that can help to accelerate the journey of all companies looking for a more sustainable approach to achieving high performance.

## Five imperatives for driving a Sustainable Value Creation strategy

### 1. Recognize the Opportunity:

Successful companies already have proven mechanisms in place to generate profitable ideas both in the short and long term, yet the business opportunities within fundamental societal issues are often overlooked. By rigorously analyzing the root causes of existing core business challenges, companies often uncover underlying societal problems that, if addressed, may lead to new sources of competitive advantage.

Chapter 1 provides guidance in finding those opportunities and also provides an in-depth definition of the Sustainable Value Creation concept.

**2. Recalibrate Your Radar:** Once the relevant societal issues have been broadly identified, achieving the goals of Sustainable Value Creation requires pinpointing the optimal role that the company can play in helping to address those issues. To accomplish this, organizations must invest in a deeper level of understanding of their future growth path as it relates to community needs. Thus, the focus of this imperative is on expanding internal and external networks to tap into trends; it is also on improving the company's ability to screen ideas based on need, uniqueness, strategic fit, and core competencies. (See Chapter 2.)

### 3. Research, Develop, Repeat:

A Sustainable Value Creation strategy requires executives to adopt a management philosophy that is akin to how an R&D department runs: a hands-on approach to conducting the local market research needed to understand societal needs and to accommodating a more iterative development cycle. Leaders must be comfortable with the idea of trying as well as failing and applying lessons to refine the program over time. (See Chapter 2.)

**4. Rewire the Organization:** As companies realize initial successes with Sustainable Value Creation, they should then look to scale programs across the business. Doing so requires important organizational changes: embedding incentive programs, governance structures, and measurement practices across the company in support of the strategy. (See Chapter 2.)



Five Imperatives for Driving a Sustainable Value Creation Strategy

**5. Reinforce the Value:** This final imperative, discussed in Chapter 3, focuses on the distinctive executive leadership capabilities required to drive success with Sustainable Value Creation. CEOs in particular must set the tone and pace of the program and reinforce the value with key stakeholders: employees, consumers, investors, and partners.

**Transforming "business as usual"**

Sustainable Value Creation is, in many ways, an extension of the same capabilities at which leading businesses already excel: understanding consumer needs, investing in innovation, mobilizing around change, creating markets, and managing a complex ecosystem of stakeholders.

At the same time, the strategy holds enormous transformative potential for an enterprise beyond "business as usual"—and that dictates

the development of additional strategic, operational, and leadership capabilities. Traditional either/or mindsets—assumptions that companies must choose between competitiveness and sustainability—must be overcome. Decision-makers will need to learn how to target fundamental societal issues that have traditionally fallen outside their scope. More iterative approaches to implementation must be adopted as companies scale their initial successes. Leadership will become a much more hands-on proposition.

The CEOs interviewed for this report stressed that, as with any competitive strategy, seizing the full advantage of Sustainable Value Creation requires immediate action. Business is under increasing pressure to rise to stakeholder expectations, increase transparency, and identify new sources of growth. At the same time, the severity and complexity

of societal problems—issues that can hamper a company's ability to thrive—are rapidly increasing. Sustainable Value Creation presents an elegant resolution: whenever and wherever possible, fuse corporate interests with society's interests. The concept is simple, but the execution of the strategy is complex. It is that complexity that prompted CECF and Accenture to undertake this effort to synthesize advice from top leaders about how to bring the strategy to life in a way that drives better business performance.

Ultimately, Sustainable Value Creation has transformative power both at the level of the individual enterprise—where the strategy serves as a filter through which all new business opportunities and investments are evaluated—and more broadly: helping companies from all industries to engage with their communities as true partners working together for mutual advancement.



# 01

## Tapping Opportunities for High Performance

Leading CEOs are proactively engaging with critical societal issues not merely from a charitable perspective, but as part of core strategy and an opportunity to grow the business.

CEOs across industries and around the world share common challenges and questions when it comes to the future of their businesses: How to create a new era of growth, how to improve market position, and how to achieve competitive advantage and high performance. There is urgency in answering these questions, given mounting business pressures: increased competition, changing customer attitudes, growing calls for transparency, globalization, the war for talent, and more.

At the same time, companies are also under more intense scrutiny about their impact on society. The recent financial crisis has damaged trust among consumers and increased regulatory concerns. Younger generations in particular are asking tougher questions about a company's relationship with the community and its effects on the world. As

**Novartis AG's** CEO Joe Jimenez puts it, "Changes in the external environment and a generational shift are creating a greater awareness amongst businesses and a greater need to act to address societal problems."

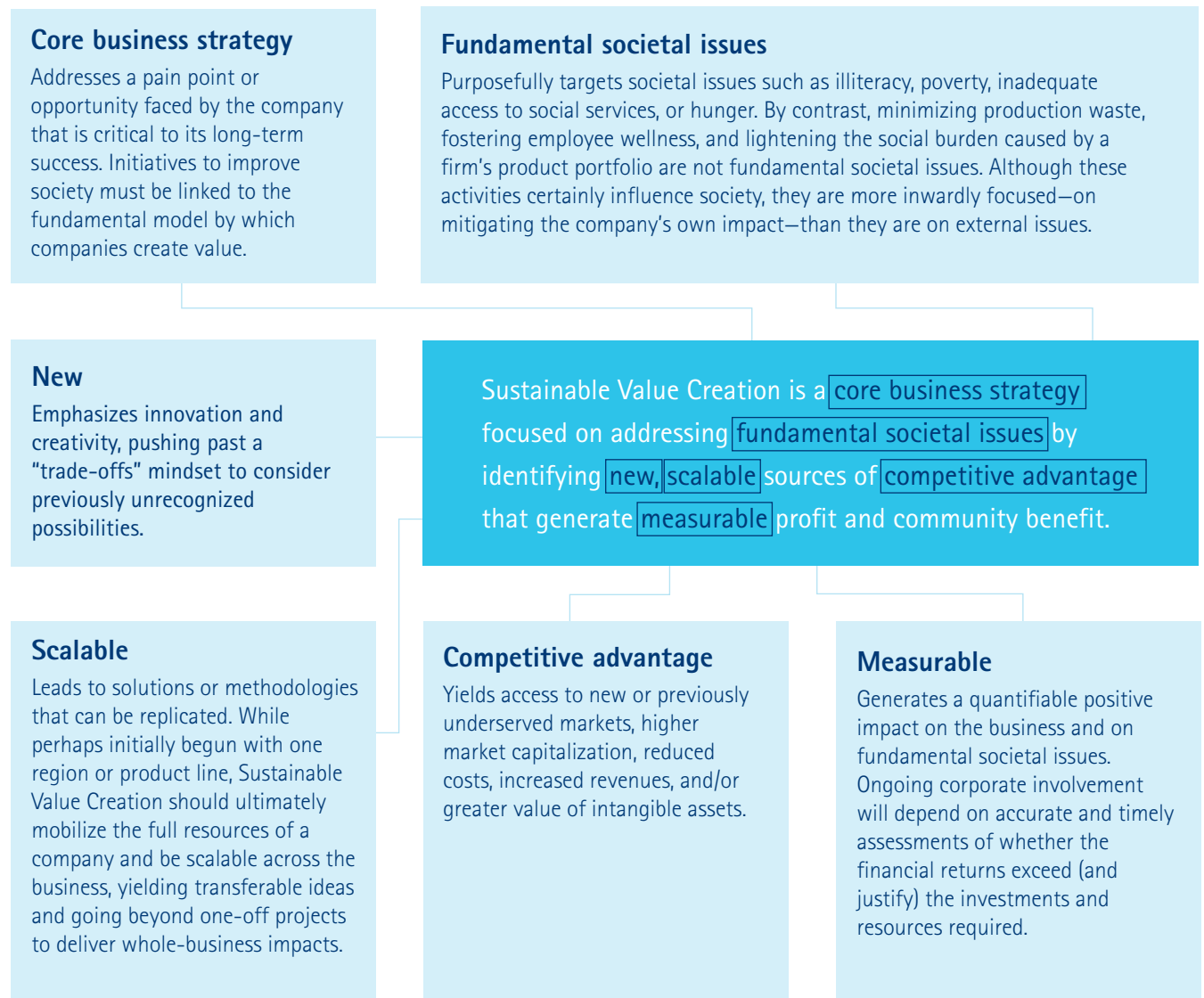
### The convergence of societal issues and strategy

How, exactly, are companies to address those societal problems? The traditional answer has been through corporate philanthropy and employee volunteerism—and certainly those efforts will continue to be important.

Yet, today, the domains of business strategy and societal concerns are converging. A deeper level of profitable engagement with fundamental societal issues is available to CEOs who look at those issues not reactively, but proactively: not merely as sources of charity, but



Figure 1-1: Sustainable Value Creation Defined



"Changes in the external environment and a generational shift are creating a greater awareness amongst businesses and a greater need to act to address societal problems."

Joe Jimenez, CEO, **Novartis AG**

as *part of core strategy* and as an opportunity *to achieve differentiation and grow the business*. Ultimately, this orientation around societal issues is "business at its best."

#### Purpose of this report: Five implementation imperatives

This report explores the challenges and opportunities of Sustainable Value Creation—a core business strategy focused on addressing fundamental societal issues by identifying new, scalable sources of competitive advantage that generate measurable profit and community benefit. (See Figure 1-1 for a breakdown of this definition.)

Insights and commentary throughout this report are provided by prominent CEOs from around the world as well as by executive polling conducted by CECP as part of the Committee's 2011 Board of Boards CEO Conference.

This report details how CEOs can reorient strategies in this direction, how they can meet some of the implementation challenges that will inevitably arise, and how they can apply their leadership talents in new and courageous ways.

Many will be familiar with the term "shared value," popularized by Michael Porter and Mark Kramer,<sup>i</sup> which focuses on business actions that redefine productivity in the value chain, re-conceive products and markets, and enable the formation of localized clusters of economic development to create positive societal and business outcomes. Sustainable Value Creation, with its focus on fundamental societal needs, is aligned to the rethinking of products, services, and community-development elements of this concept.

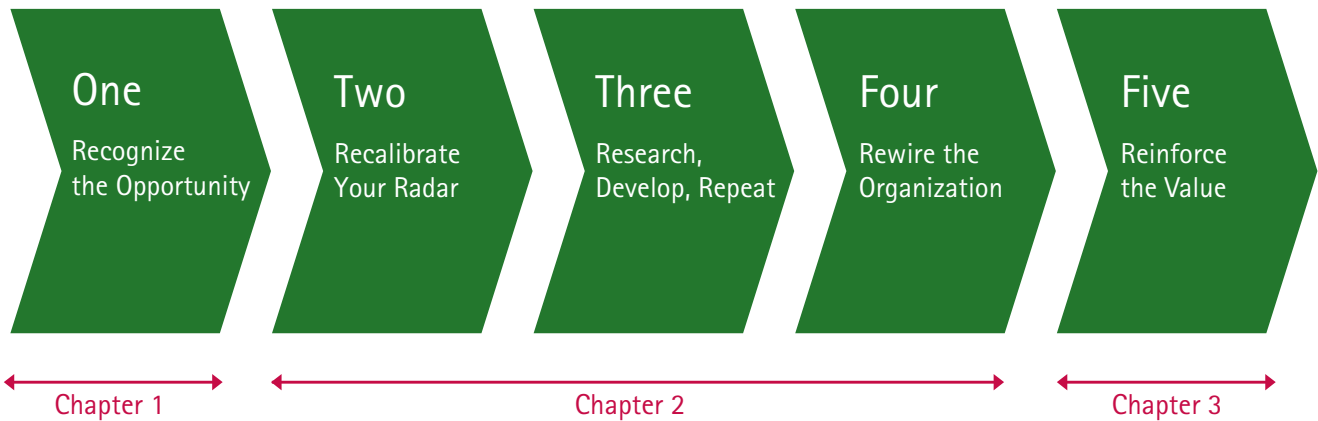


Figure 1-2: Five Imperatives for Driving a Sustainable Value Creation Strategy

*Business at its Best* is structured around five critical implementation imperatives for CEOs to act upon as they plan, implement, manage, measure, and communicate Sustainable Value Creation initiatives. (See Figure 1-2.)

- Chapter 1 highlights the overall mindset that must be nurtured and embedded across the organization—the imperative to recognize the strategic opportunity of addressing societal issues that underpin core business priorities.
- Chapter 2 focuses on three implementation imperatives covering how companies can identify the most critical issues; adapt to the iterative nature of Sustainable Value Creation; and structure organizational charts, incentives, and metrics to optimize the outcome of their efforts.

- Chapter 3 explores a final, overarching imperative: the need for decisive and visionary CEO leadership.

This report explores the challenges and opportunities of Sustainable Value Creation as seen through the eyes of prominent CEOs from around the world.

# Imperative One: Recognize the Opportunity

What, specifically, does it mean to see business opportunity in fundamental societal issues and to generate profitable innovations from them? How might a Sustainable Value Creation strategy be plotted for specific kinds of companies across different sectors?

Consider Figure 1-3, which follows the Sustainable Value Creation logic for several industry sectors. It details a sample core strategic issue facing each industry, the possible root causes that underpin each issue, the opportunities for Sustainable Value Creation, and then the approaches and benefits in addressing the societal problems.

In the managed health-care industry, for example (see the first row of Figure 1-3), companies are dealing with a variety of core strategic issues, one of which is that costs are rising as a percentage of premiums. Is there a societal problem that is actually a root cause of that strategic challenge? Yes: In this case, one underlying cause is unhealthy consumer behaviors, such as lack of exercise and eating habits that lead to rising rates of preventable diseases.

A Sustainable Value Creation opportunity for a managed health-care company could be to design innovative health interventions to provide consumers with information and resources that support personal wellness, positively influencing the behaviors that have led to rising costs. To do this, a company could collaborate with third parties—even competitors—to engage in research and program design. They could also partner with corporate clients to

implement these interventions with their employees, cooperate with governments to raise awareness among citizens, and work with schools to educate students.

The result is a series of important benefits to society and to the business: Society benefits from healthier community members while managed health-care companies benefit from a possible reduction in the number of high-cost claims and the potential expansion of their research base, which may inform the design of future interventions.

As Figure 1-3 also shows, this same logic can be applied to many industries and needs. Shortages of talent in areas like IT or engineering, for example, could be addressed through proactive investments and partnerships with educational institutions. In the financial services industry, training and programs that support college savings planning in disadvantaged communities can benefit both students and companies. Such initiatives can simultaneously help students gain access to post-secondary education, increase their financial literacy, and provide the companies with a deeper understanding of this untapped market to support the design of appropriate products and services. Specific opportunities will vary, since the underlying societal issues are ultimately company-specific. The common theme, however, is the need for innovation and executive vision; many of the most important breakthroughs will arise from the ability to see potential solutions that may initially seem non-intuitive.

**The Dow Chemical Company**, for example, has embraced the convergence between addressing fundamental societal issues and the bottom line. The company has tasked itself with developing at least three breakthroughs that will dramatically improve the world's ability to solve problems in the areas of affordable and adequate food supply, decent housing, energy and climate change, sustainable water supplies, and improved personal health and safety. By pointing its research and development capabilities toward major problems affecting people around the globe, Dow has the opportunity to benefit society as it positions itself for competitive advantage in the future.<sup>ii</sup>

Does every societal challenge that affects business lend itself to a commercial solution? No. And not every corporate obstacle or strategic issue is necessarily linked to a fundamental societal problem. That's why corporations, private foundations, individuals, governments, and other funders must continue to support issues and causes that support thriving communities. But for many fundamental societal issues, the strategy of developing products and services that address those issues in a way that also generates better financial performance represents an untapped opportunity and a strategic imperative. As Marcelo Cardoso, Executive Vice President for Organizational Development and Sustainability at **Natura Cosméticos S.A.**, in Brazil, explains: "Focusing our business strategy on financial, societal, and environmental goals in tandem allows the company and society to succeed."

Sample Industry Sectors	Sample Core Strategic Issue	Possible Root Causes of the Strategic Issue	Opportunity for Sustainable Value Creation	Approaches Required	Societal and Business Benefits
Managed Health Care	<ul style="list-style-type: none"> <li>Costs rising as a percentage of premiums.</li> </ul>	<ul style="list-style-type: none"> <li>Consumer behavior detrimental to health, causing rising rates of preventable diseases.</li> </ul>	<ul style="list-style-type: none"> <li>Design health "interventions" that educate and equip individuals with information and resources that support personal wellness.</li> </ul>	<ul style="list-style-type: none"> <li>Partner with third parties and competitors for research and program design.</li> <li>Partner with business-to-business customers to roll out interventions with their employees.</li> <li>Team with government and academia to educate citizens on an ongoing basis.</li> </ul>	<ul style="list-style-type: none"> <li>Possible reduction in number of high-cost claims.</li> <li>Improved health of employees for B2B client employees.</li> <li>Expanded research base.</li> </ul>
Consumer Staples – Packaged Foods	<ul style="list-style-type: none"> <li>Rising commodity and transportation costs.</li> </ul>	<ul style="list-style-type: none"> <li>Inputs are not locally sourced due to poor or inconsistent quality from local vendors, often caused by a lack of raw materials and training.</li> </ul>	<ul style="list-style-type: none"> <li>Partner with local governments, NGOs, and farmers for capacity-building.</li> </ul>	<ul style="list-style-type: none"> <li>Multi-year investment horizon and commitment to local communities.</li> <li>Establishing cross-sectoral partnerships and identifying local leaders.</li> </ul>	<ul style="list-style-type: none"> <li>Improved economic and living conditions for local communities and farmers.</li> <li>Stable and high-quality commodity supply.</li> </ul>
Diversified Financial Services	<ul style="list-style-type: none"> <li>Slow rate of new consumer loans.</li> </ul>	<ul style="list-style-type: none"> <li>Students deterred from higher education, given rising tuition costs.</li> <li>General lack of financial education.</li> </ul>	<ul style="list-style-type: none"> <li>Develop training and products that support college-savings planning.</li> </ul>	<ul style="list-style-type: none"> <li>Cross-sector partnership for curriculum development and delivery.</li> <li>More in-depth consumer research to understand previously untapped market.</li> </ul>	<ul style="list-style-type: none"> <li>Greater opportunities and access to post-secondary education.</li> <li>Improved household financial literacy.</li> <li>Higher trust and deeper relationships with communities and local stakeholders.</li> </ul>
Information Technology Consulting	<ul style="list-style-type: none"> <li>IT talent shortage and rising wages.</li> </ul>	<ul style="list-style-type: none"> <li>High dropout rates for post-secondary education.</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with community colleges to support training, mentorship, and recruitment of high-potential students.</li> </ul>	<ul style="list-style-type: none"> <li>Cross-sector partnership for program design.</li> <li>Modified recruiting and on-the-job training practices.</li> <li>Employee-volunteer mentors.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened talent pipeline.</li> <li>Greater incentives for students to remain at school.</li> <li>More robust curricula.</li> <li>Lift to employee morale.</li> </ul>
Materials	<ul style="list-style-type: none"> <li>Rising costs of extraction and limits to supply.</li> </ul>	<ul style="list-style-type: none"> <li>Low consumer recycling rates spur extraction rather than reuse.</li> <li>Growing levels of consumption from an expanding global middle class.</li> </ul>	<ul style="list-style-type: none"> <li>Invest in convenient and cost-effective recycling infrastructure and consumer-education initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Significant up-front R&amp;D and infrastructure investment.</li> <li>Partner with communities on education and collection.</li> <li>Research into consumer attitudes.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced landfill use.</li> <li>Lower energy and other costs associated with recycling rather than extraction.</li> <li>Improved recycling technology.</li> <li>Opportunities for sharing technologies and insights.</li> </ul>

Figure 1-3: Locating the Societal Issues Underlying Core Strategic Issues

## Sustainable Value Creation: What's different?

Is Sustainable Value Creation simply the pursuit of profit under a different name? What's truly different or new about this strategy? In some important respects, Sustainable Value Creation is "business as usual." The function of business remains intact: to identify consumer needs and to create innovative products or services that meet those needs at a price that optimizes demand versus cost. Henrietta Holsman Fore, Chairman of the Board and CEO of **Holsman International**, notes, "There needs to be a profit margin at each step of designing a Sustainable Value Creation strategy because at its heart it's an economic and business-driven decision."

Figure 1-4 demonstrates, using **PepsiCo** as a case example, that Sustainable Value Creation is indeed based on the foundation of a company's traditional fiduciary responsibilities to shareholders and its fundamental drive for profit. Similarly, corporate commitments to social responsibility and philanthropy also continue, because, as noted, not every societal issue that affects business will necessarily lend itself to a commercial solution.

As the figure also indicates, however, what is new is the added layer of opportunity at the top: the manner in which Sustainable Value Creation moves businesses beyond some of the restrictions inherent in traditional philanthropy and actually views corporate participation in the solution of fundamental societal issues as a source of competitive advantage.

As PepsiCo's Chairman and CEO Indra Nooyi noted during her remarks as a panelist at the 2011 Board of Boards

CEO Conference, "There's not enough money that we can give away to be viewed as a responsible company in 200 countries. And we can't do it sustainably. So the only way it can work is to weave responsibility into the core business of the company."

Consequently, PepsiCo is rethinking its strategic challenges by pursuing opportunities aligned with Sustainable Value Creation. For example, in the Mexican region of Jalisco, PepsiCo is investing in farmer training and providing small and medium-size corn growers the seeds, fertilizers, agrochemicals, and water-usage guidelines that help them produce abundant crops. The objective is to improve the quality of corn supplied to the company's factory by local producers (whose products previously fell below its quality standards). While generating increased business value to the company through a more effective supply chain, these investments are also raising the living standards of the local community.

This example makes clearer how Sustainable Value Creation takes a company beyond "business as usual." Another company in this situation might well choose simply to absorb the fluctuations in transport and raw material costs from sourcing its inputs from outside the local area. But rather than endure rising costs or inconsistent quality as a continuing pain point shaped by external forces, PepsiCo chose instead to confront the underlying problems head-on: in a way that led to better value both for the business and the community. This is a powerful example of finding business opportunity in fundamental societal issues—a goal at the heart of a Sustainable Value Creation strategy.

"There's not enough money that we can give away to be viewed as a responsible company in 200 countries. And we can't do it sustainably. So the only way it can work is to weave responsibility into the core business of the company."

Indra Nooyi, Chairman and CEO,  
**PepsiCo**

Figure 1-4: Snapshot of a Complete Business Strategy





"The long-term sustainability of the company hinges on the larger society feeling the benefit of the company's existence. Sustainable Value Creation is in the self-interest of the company."

Kris Gopalakrishnan, President and CEO, Infosys Technologies, Inc.

### Why the urgency?

Why haven't companies pursued a Sustainable Value Creation strategy before and why is there an urgency to do so now?

Some companies and industries are feeling a "push" toward Sustainable Value Creation. The firm's core strategic targets—for example, the pursuit of new operations: the desire to grow in emerging markets or in an increasingly competitive field—are putting societal concerns more directly in the path toward achieving those objectives.

For others, there is a "pull" toward Sustainable Value Creation. Over time, the business model is becoming less compatible with deeply rooted societal issues that are nearing a breaking point, such as health concerns or a dependence on finite resources. The industry, geography, and maturity of the business will all play a role in determining the exact timeline along which to pursue Sustainable Value Creation. However, whether driven by an external or internal strategic mandate, Sustainable Value Creation is a strategy that all high-performance businesses will have to confront. Given the time and effort to roll out such a strategy, being proactive yields a greater suite of possibilities for implementation.

In the words of Kris Gopalakrishnan, President and CEO of **Infosys Technologies, Inc.**, "The long-term sustainability of the company hinges on the larger society feeling the benefit of the company's existence. Sustainable Value Creation is in the self-interest of the company."

### Advancing the vision

The fundamental imperative explored in this chapter is, in the end, about vision: recognizing the untapped opportunities in fundamental societal issues and engaging with those issues as part of core strategy. As the steward of the corporate direction, the CEO's role early in the journey toward Sustainable Value Creation is especially important.

Although many companies are still at an exploratory stage, the CEOs interviewed for this report were almost unanimous in their conclusion that a Sustainable Value Creation strategy is rapidly becoming non-optional. Fundamental societal issues lurk behind many of the challenges business will face over the next decade. Companies can address those issues now, proactively, when the full suite of possible responses is still available—or they can react to them later, when optimal solutions may be more expensive and the opportunities to achieve competitive differentiation fewer.

CEOs, however, are acutely conscious of the challenges that arise as a company moves from early planning phases to implementation. Learning to identify and screen opportunities more effectively, adopting more iterative management approaches, and supporting a Sustainable Value Creation strategy with the proper structures and incentives: these are among the hurdles to be faced.

Informed by lessons from companies already progressing along this path, Chapter 2 explores three implementation imperatives designed to overcome these hurdles and accelerate the journey.



# 02

## From Opportunity to Action

CEOs of pioneering companies that have driven the first wave of Sustainable Value Creation strongly emphasized the challenges involved in pursuing a business strategy that sometimes appears to be just "business as usual." For example, implementing a Sustainable Value Creation strategy requires many of the same change-management techniques as the deployment of any sizable, strategic corporate shift.

Yet these techniques must be adapted to account for the linkage to relevant societal issues. This requires the capability to see opportunities, screen them, manage programs iteratively, and support the entire endeavor organizationally.

This chapter addresses three specific implementation imperatives to guide CEOs as they implement a Sustainable Value Creation strategy. The following page brings these imperatives to life through the example of the global pharmaceutical company **Novartis AG** (see Novartis case study: "Three Implementation Imperatives in Action").

### **Recalibrate Your Radar:**

Successful companies become so in part because they have a good "radar" for recognizing growth opportunities and they know how to match those opportunities to their experience, reach, and competencies. But understanding how to translate a societal issue into a business strategy will require expanded thinking, particularly in the areas of effectively identifying and prioritizing potential projects.

### **Research, Develop, Repeat:**

Implementing Sustainable Value Creation isn't done on a whiteboard in a conference room. Instead, a company must become more involved in local communities and should view implementation as an R&D effort, especially in terms of being prepared to test, fail, and learn.

### **Rewire the Organization:**

As companies move from initial, limited successes to more scalable Sustainable Value Creation solutions, they need to adapt the structures of their organization to make sure new modes of operating are adopted across the business. They need commensurate governance and reward mechanisms as well as measurement and communication strategies that gauge and support the initiative's success.

## Novartis AG: Three Implementation Imperatives in Action

### A Sustainable Value Creation Journey through Arogya Parivar

Launched by Novartis in 2006, the Arogya Parivar (the Hindi phrase for "Healthy Family") program combines health-care education and access to affordable medicines in rural India. This for-profit social initiative is based on Novartis's belief that helping patients in rural India should move beyond philanthropy to a sustainable business model that empowers patients to take their health into their own hands.

### Recalibrate Your Radar

Detect and screen opportunities and obstacles through the lens of societal issues.

In creating this concept, Novartis sought ways to leverage its reach, scale, and competencies in emerging markets. The company was inspired by experts in the academic community—in particular C.K. Prahalad, the late, distinguished professor of corporate strategy at the University of Michigan who authored the book *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Professor Prahalad's research showed that seemingly unreachable populations at the bottom of the economic pyramid make up around one-third of the world's population and present a sizable opportunity to extend access to health care. Novartis began to analyze statistics on rural India's population, purchasing power, transportation infrastructure, and the density of private doctors to identify communities for a pilot program.

### Research, Develop, Repeat

Become more involved in local communities and view implementation as an R&D effort, experimenting and refining on-the-go.

The key elements of the Arogya Parivar project are built on a keen understanding of local conditions. The program focuses on educating patients about disease prevention and management while also offering treatment options from across the broad Novartis portfolio. For example, as many doctors in rural villages have little formal medical training, Novartis recruited villagers who closely understood the customs, norms, and needs in the villages to become local health educators. Cells, each serving around 100 villages, were created and assigned a health educator to lead information sessions on topics such as preventative health and nutrition and to refer sick people to doctors. Educational materials are tailored to meet local needs and have been translated into 39 dialects.

On the commercial side of Arogya, recognizing that many villagers are fieldworkers who earn just a few US dollars daily, Novartis made treatments more affordable by selling medication in smaller packages with doses for only 1-3 days. While patients need to purchase the packs more frequently, this keeps weekly treatment costs below USD 1.25. The company also works to ensure that local pharmacies are well-stocked with medicines by setting up new distribution networks that can supply very remote locations.

As Novartis continues to adapt the Arogya Parivar initiative to meet the needs of patients in rural India, consultations with local stakeholders have enabled the company to make adjustments to the original concept. For example, education about the causes of diseases was found to be even more critical than affordability; therefore, education became a major focus of the program.

### Rewire the Organization

Embed new structures, communications, incentives, and metrics to scale.

Today, Arogya Parivar is present in 180 districts in 10 states across India, covering an estimated 50 million people in the country with the eventual goal of reaching 350 million people in the next decade. Moving forward, Novartis plans to form a consortium of at least 20 NGOs in India to provide targeted intervention in the causes of diabetes, tuberculosis, diarrhea, and clean water. Also, the company is already piloting a similar program in China and there are plans to replicate and adapt the model in other countries in East Africa and Southeast Asia over the next few years.

Reflecting on the success of the Arogya Parivar project, Novartis CEO Joe Jimenez commented: "We knew that if we could create a win-win, by both serving the patients and creating value for the company, it could create a level of sustainability that traditional corporate citizenship may not achieve."



# Imperative Two: Recalibrate Your Radar

Sustainable Value Creation involves a process of finding the convergence between core business strategy and fundamental societal issues. Consequently, the radar with which companies detect oncoming obstacles and opportunities must be recalibrated to recognize the relevance of societal issues to the business.

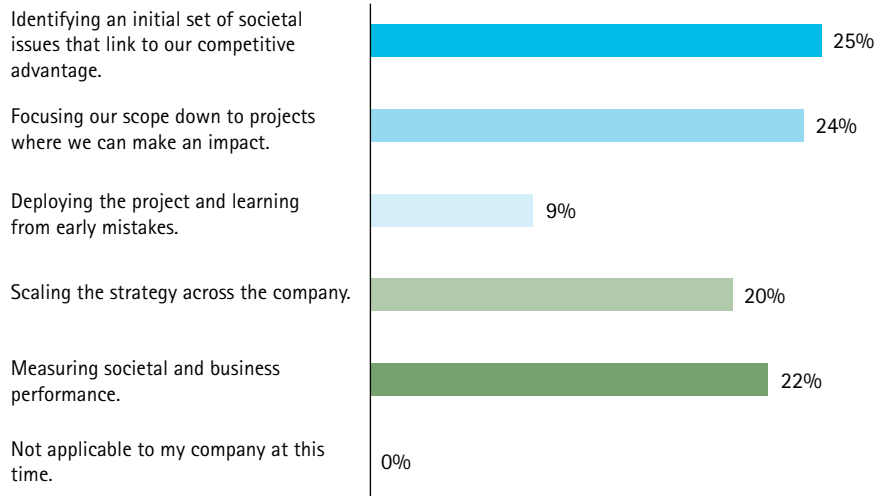
Ultimately, a company's radar must be forward-looking, assessing the potential impact of issues *before* they actually arise. Secondly, a properly recalibrated radar will not only help companies identify the oncoming issues, but also provide enough data to assist with prioritizing which ones the company should (1) deal with immediately, (2) simply monitor for now, and (3) disassociate from the company's future growth path.

## Detecting obstacles and opportunities

Identifying societal issues that could be translated into profitable products and services isn't often an existing competency for many companies or their leaders because it falls outside the scope of traditional business. A poll of the CEOs who attended the CECP 2011 Board of Boards conference revealed that about one-half of these CEOs believed that identifying and prioritizing issues at the convergence point between business goals and societal goals was the biggest obstacle they faced (See Figure 2-1). One-on-one CEO interviews confirmed this notion that recalibrating a company's radar for Sustainable Value Creation opportunities is a significant challenge.

Figure 2-1

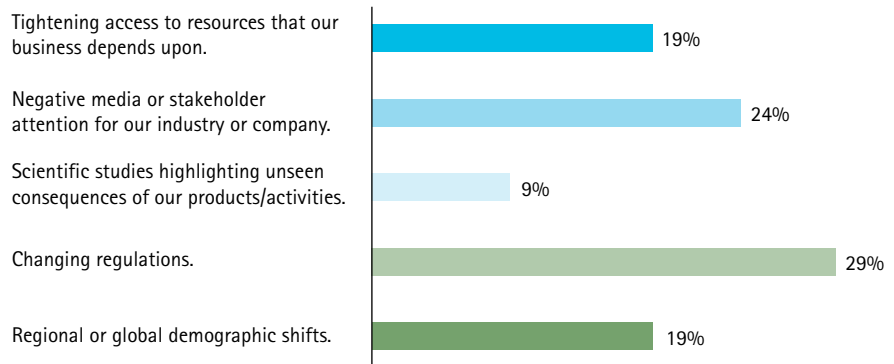
In implementing a Sustainable Value Creation strategy, which stage did your company find most difficult?



Source: CECP Board of Boards CEO Conference, 2011; N=59

Figure 2-2

Which of the following most likely points to underlying societal issues that are relevant to your business?



Source: CECP Board of Boards CEO Conference, 2011; N=52

How can a company improve its radar? What follows is a selection of approaches discussed by the CEOs interviewed for this report.

### Tap into trends

As with any new product or strategic initiative, the first source of ideas is trend analysis. Clues to important societal issues that could be business opportunities can be found in a variety of places: a company's financial forecasts, positive or negative patterns in its media coverage, pertinent demographic or scientific studies, or factors such as the increasing costs of raw materials. Ideas can also come from examining regulatory trends and from paying attention to issues being pursued consistently in the media. In the Board of Boards polling, CEOs particularly emphasized these latter two sources of trend analysis. (See Figure 2-2.)

For some companies with an internal research team, a reorientation around societal issues can be a powerful source of ideas. For example, to help identify societal issues relevant to its business opportunities, financial services company **HSBC Bank plc** created a Climate Change Centre of Excellence, an in-house research center that, according to the Centre's Head Nick Robins, provides "a focal point within HSBC to look at climate change as a strategic commercial issue." The Centre aims to stimulate greater understanding of the implications of climate change and to translate these into business opportunities for both HSBC and its clients.

### Read between the lines to track customer pain points

Another source of ideas and opportunities is consumers and enterprise customers. Yet companies need to look for customer intelligence

with methods beyond some of the traditional means of harvesting customer-service inquiries and complaints, because the products and services to be designed touch on more complex issues than companies have targeted historically. The linkage to societal issues often requires more subtle ways of reading between the lines into what customers are saying and doing: looking for entrenched pain points and needs particular to the society in which they live and then translating these pain points and needs into opportunities.

Several leading companies have already demonstrated the benefits of harnessing the power of customer understanding to develop innovations. For example, **GE's** healthymagination strategy was developed in response to both customer demands and societal needs. By listening to these constituencies and connecting the dots between macro societal trends and consumer feedback, the company was able to create cutting-edge products and technologies that improve health and cut costs. (See GE case study, "Turning Customer Feedback into Business Opportunities.")

### Empower passionate employees

A company's own workforce is also an important source of fresh ideas. Passionate employees outside traditional product-design functions and who have a vision for turning a societal issue into a competitive advantage can become "intrapreneurs" on the company's behalf.

To harness employees' close familiarity with products, services, processes, customers, and culture, companies must have mechanisms in place to gather and consider employee insights. That is, there must be well-known and well-used

"You're really looking for programs to be win-wins with your employees and your customers, as well as being the right thing to do. We found that the only way to drive our sustainability objectives forward is by entering into dialogue with stakeholders."

Irene Dorner, President and CEO,  
**HSBC Bank USA, N.A.**

# GE: Turning Customer Feedback into Business Opportunities



### Customers call for a focus on the environment

GE's path to Sustainable Value Creation began with mobilizing the company to tackle environmental issues—not only by optimizing the efficiency of the firm's own operations, but by creating a product portfolio that delivered solutions to environmental challenges. How did environmental concerns rise to the top of the company's shortlist of issues? Focus-group sessions with customers revealed widespread concern regarding government regulations and rising oil prices. Picking up on this theme, GE's Chairman and CEO Jeff Immelt saw an opportunity for a win-win strategy: to improve the environment and the bottom line by filling this growing market need with next-generation jet engines, power turbines, locomotives, water-treatment systems, solar panels, and other solutions.

### Reconciling competing customer and employee visions

Launched in 2006, the now-famous ecomagination program has been a roaring success; the company sold more than \$18 billion worth of ecomagination products in 2009 and expects that figure will double by 2015. However, at the time of ecomagination's launch, GE employees were highly skeptical that the billions being invested in R&D would pay dividends—they dismissed the initiative as a marketing gimmick. In fact, at first Mr. Immelt and SVP and CMO Beth Comstock were the only believers. Referring to the firm's employee base, Mr. Immelt famously

said to a journalist: "It was like two people against 300,000 the first day."<sup>iii</sup> Mr. Immelt and Ms. Comstock combated that resistance by linking employees directly to customers and emphasizing the energy savings and market successes along the way.

### A move from environmental to societal issues

The next phase in GE's Sustainable Value Creation journey directly leveraged the lessons learned and employee acceptance gained through the ecomagination project. Again, GE developed a shortlist of issues by connecting more deeply with customers to understand their concerns. This active listening led to the company's next opportunity: consumer health. As with ecomagination, the company followed up on customer feedback by dispatching teams to assess the market, audit the company's current product portfolio, and research technology trends. The company identified needs in four major areas: health reform, technology, health delivery, and consumerism and primary care. Thus, healthymagination was born: a six-year, \$6 billion commitment to health-care innovation designed to deliver better care to more people at lower cost, all while growing GE's business.

**"It's about using the scale of GE, the majesty of the company, to drive growth and change."**

Jeff Immelt, Chairman and CEO, GE

### Taking a long-term approach to innovation

Asked in a December 2010 *New York Times* article to reflect on his philosophy, Mr. Immelt described himself as a champion of "large-scale entrepreneurship," meaning that the company identifies long-term market shifts and then marshals its research, manufacturing, and marketing resources to capitalize on the opportunity. Summarizing his approach, Mr. Immelt said: "It's about using the scale of GE, the majesty of the company, to drive growth and change."<sup>iv</sup>



channels for employees to use for contributing and vetting ideas and management must monitor the channel, provide feedback, and reward employees accordingly.

Longstanding assumptions about what makes a viable suggestion might need to change. For example, a plan to make a positive impact on people in need through a new business service or product must now be seen in a different light—not only in terms of traditional philanthropy, but as a potential business investment. The longer time horizon required by Sustainable Value Creation must be figured into the mechanism for harvesting insights. A proposal that might take several years to mature can no longer be dismissed out of hand.

Harnessing employee ideas and passion can generate profitable ideas. At the telecommunications company **Vodafone**, for example, two employees helped create M-PESA, a mobile banking solution for people in Kenya without traditional bank accounts.<sup>v</sup> M-PESA has grown rapidly, reaching 13.5 million users as of September 2010 and counting more than 80% of Vodafone subsidiary Safaricom's customers as registered for the service.<sup>vi</sup>

Ultimately, what companies require is more collaboration and dialogue related to Sustainable Value Creation—with customers, employees, and other stakeholders. As Irene Dörner, President and CEO of **HSBC Bank USA, N.A.**, puts it: "You're really looking for programs to be win-wins with your employees and your customers, as well as being the right thing to do. We found that the only way to drive our sustainability objectives forward is by entering into dialogue with stakeholders."

### Engage your critics

Leading CEOs report that important feedback can be gained through candid dialogue with consumer organizations and nonprofits—including those that have traditionally been perceived as adversaries. Often, these groups have complementary assets that can deliver important benefits at the early stage of identifying Sustainable Value Creation opportunities. Such organizations are highly engaged in their work with target communities; they know the situation on the ground and can be vital sources of information about opportunity as well as implementation. In effect, these institutions have highly developed radars to detect pressing social issues and community needs that a company can harness to promote idea generation.

Some companies have found it worthwhile to invite critics to comment on the company's future strategy and practices. Chad Holliday implemented this collaborative approach while he was CEO at **DuPont**. On an annual basis, he invited nonprofits to review and comment on the company's strategy and direction. The sessions included participants who were known to be critics. Holliday notes, "You don't want somebody who's just going to agree with you on everything; that's a waste of time. You want people who will push back."

External organizations are more than just a source of feedback and information; they can also be sources of collaboration, where each partner—a business, a government agency, or a nonprofit—can contribute complementary skills. **NYSE Euronext**, for example, is looking to develop partnerships that provide content on financial literacy, channeling its differentiating assets—its distribution network and reputation—to get this information into the marketplace and people's homes.

"You don't want somebody who's just going to agree with you on everything; that's a waste of time. You want people who will push back."

Chad Holliday, Chairman of the Board, **Bank of America** and former CEO, **DuPont**

"We are not trying to solve every issue. Instead, we are taking on things that are core to our competency and in geographies we can manage. We do them where they drive business value, not just because they sound good."

Doug Conant, President and CEO,  
The Campbell Soup Company

## Deciding when to act

Developing a better radar means seeing more opportunities in more areas and also filtering or prioritizing them more effectively. The ultimate goal is to narrow down the list of potential societal issues into a shortlist of those that are (1) clearly a broad need, (2) unique, (3) linked to a company's strategic direction, and (4) addressable by the company's core competencies.

### Map the complexities to understand the deeper need

It's important to try to map some of the interconnected cause-and-effect issues related to the need. Societies are complex interdependent systems—for example, obesity has a link to poverty; early childhood education issues are often connected to poor nutrition. Mapping these complexities early in the process helps ensure that projects achieve the desired impact with fewer unintended consequences. By skipping this crucial analysis, many companies uncover these linkages only after considerable time and funds have been spent—and then must evaluate whether a change in strategic direction is needed after the root causes of an issue are more fully understood.

### Examine ideas for uniqueness

There are advantages and disadvantages associated with developing a unique idea. A unique program can become a distinctive part of a company's brand and perhaps generate advantage—on the other hand, there may be fewer known paths forward, and more missteps.

Either way, it is important for companies to understand at the outset whether the projects they have chosen are distinctive or common (or even potentially redundant). The

way to do this is to engage in due diligence when filtering the initial slate of opportunities. A rigorous process needs to be in place, in order to analyze the broader environment and ascertain what opportunities other funders, government agencies, academic institutions, and nonprofit organizations are actively pursuing related to the selected societal issues.

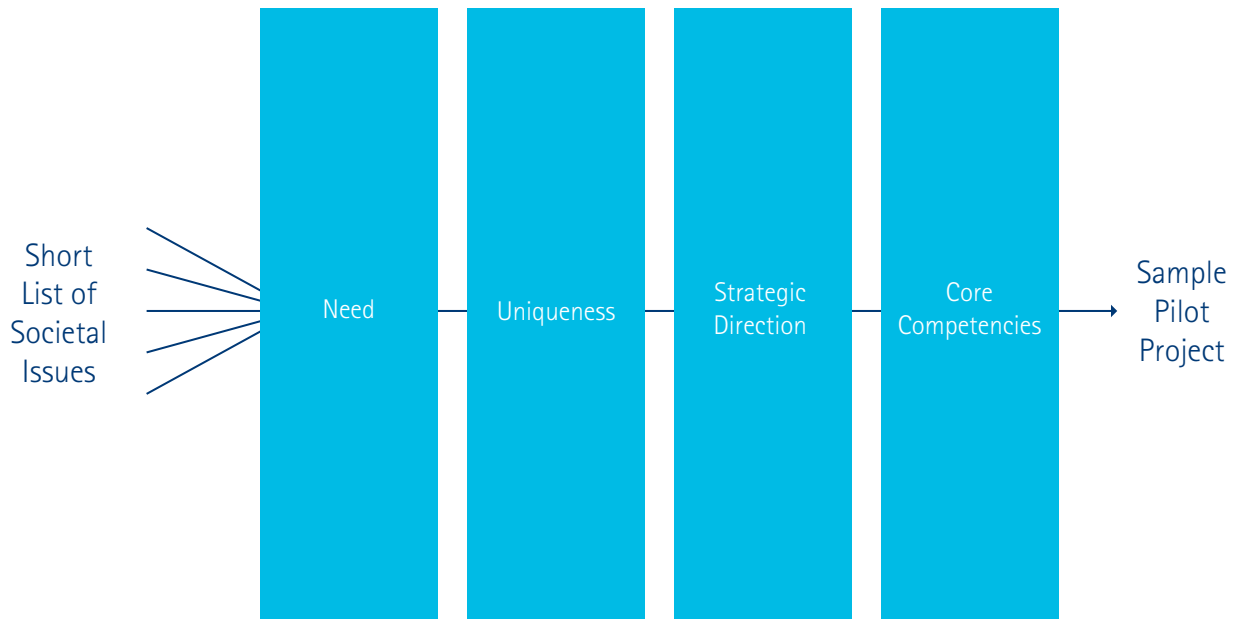
Some topics or programs are crowded. A bank, for example, might well become interested in financial literacy programs for consumers in emerging markets—only to find that many other banks are already firmly entrenched in that space. Companies should also investigate, to the extent possible, what their industry peers and supply-chain partners are doing (or not doing) related to the opportunity.

### Match areas of social need with strategic direction and markets

Leading CEOs then use their company's forward-looking core business objectives to determine which projects to pursue. They work to understand the overlap between markets where the company is active or where it wants to expand its presence in the future. This analysis, as well as industry and geographic priorities, serves as another important filter of potential opportunities.

Although assessing potential financial impact is an important part of the filtering and screening process, companies should not seek to calculate in full the net present value of a Sustainable Value Creation project at this stage. It may be too early to expect detailed financial projections. Instead, executives should define high-level objectives that feed rapid decision-making and that involve stakeholders in tracking success based on community perspectives.

Figure 2-3: Screening Potential Sustainable Value Creation Opportunities



### Match priorities with core competencies

Executives should look for Sustainable Value Creation projects that are well-matched with the company's unique assets and capabilities: business know-how, employee skills, supply chain, infrastructure, and technology. Sustaining an initiative like this over the long term and using it to create competitive advantage depend on finding a good fit between opportunity and competency.

As Doug Conant, President and CEO of **The Campbell Soup Company**, notes, "We are not trying to solve every issue. Instead, we are taking on things that are core to our competency and in geographies we can manage. We do them where they drive business value, not just because they sound good."

Similarly, **Verizon Communications, Inc.**'s Chairman of the Board and CEO Ivan Seidenberg says that Verizon focuses on "areas that are uniquely related to what our business is about. We take the core of our company and extend into places where we think we have natural credibility and can deliver at scale."

Together, need, uniqueness, strategic priorities, and core competencies become a set of filters that provide practical guidance in determining which Sustainable Value Creation opportunities are potentially most profitable. (See Figure 2-3.)

# Imperative Three: Research, Develop, Repeat

Sustainable Value Creation projects are business strategies subject to the same rigor as any corporate initiative. At the same time, they have to be planned and managed in slightly different ways—more like an R&D project: by rolling up the company's metaphorical sleeves, getting involved in local communities, taking risks, and learning from failures. As noted, the sort of traditional market research that drives most growth initiatives will probably not exist. Most likely, the learning process will be iterative, taking place in the community in real time, and publicly, rather than in a laboratory.

As with an R&D effort, the focus during implementation should be on setting directional goals and establishing a general target rather than specific and prescriptive milestones too far in advance.

CEOs interviewed for the purposes of this report highlighted the need to become more personally involved in these earlier testing phases of a program to ensure that setbacks do not derail the project when it is in a fragile state. The following are some of the critical actions they recommend.

## Understanding the local context

To minimize unintended consequences and increase the chances for success, a Sustainable Value Creation project must involve, at an early stage, understanding the context of the populations that will be affected. Such understanding helps to ensure that the proposed initiative is truly desired by the community and that the company is transparent about its initiative's intent. An important goal

of Sustainable Value Creation is to work in a way that does not *impose* a solution, but instead invests in communities that are actively asking for assistance on important societal issues.

Researching consumer needs, tastes, and preferences is critical but challenging. At early stages in Sustainable Value Creation programs, a company most likely will not have the market research it needs to proceed optimally. In many instances, the target demographic has been historically overlooked or past market researchers have not explored the behaviors and root causes of the societal issue. Accordingly, the company often has to create this market intelligence from scratch. Much of that research will be done with "boots on the ground," i.e., in the local community rather than at headquarters.

Companies must ensure that they don't impose solutions that are mismatched to local desires and needs. In the words of Henrietta Holsman Fore, Chairman of the Board and CEO of **Holsman International**, "A company does not want people telling the community what they need, but rather someone with very big ears who can hear what the community needs." As this understanding deepens, so does trust—which can pay big dividends later in the process. John Reid, Vice President of Corporate Social Responsibility at **The Coca-Cola Company**, explains, "There is an evolutionary pathway, which begins with listening to the community and figuring out what needs to be done. This then evolves as the company develops an authentic voice in the conversation, in a manner that the

community genuinely appreciates and that the culture and the corporate priorities embrace as well."

The following are some specific ways companies can better understand local context to guide implementation.

## Navigate local power structures

Companies should test whether the elected officials or leaders within a community accurately represent the needs and wishes of the target population. Every community has both an official power structure and an unofficial one and companies can waste precious time and resources by operating in a vacuum of information about how things "really get done."

As Klaus Kleinfeld, Chairman and CEO of **Alcoa, Inc.**, states, "You can easily go down the wrong path if you take superficially voiced aspects from some people in the community who do not really represent what is needed." It may require some additional work to get an accurate read on the broader community. For its local initiatives, Alcoa worked to create a governance structure within the community and with which the company could then interact.

## Leverage employees or external organizations with local knowledge

Sometimes the answer to understanding local context may be within the business: with employees in the target population or who have close ties to it and can provide insights into the nuances that can make or break a project. Leveraging these employee relationships can also be an important way to build trust with local communities.

Another effective approach is to tap organizations that are well-connected to the community. John Elkington, Founding Partner and Executive Chairman at Volans, recommends working with one of the "growing number of organizations that try to bring mainstream actors in the public and private sector together with wider social change agents." Often, companies can also learn from past efforts, successful and unsuccessful, made by other institutions.

A key is to leverage organizations that are networked, empowered, and credible in the community. For example, when **Applied Materials** sought to vet an initial list of partners and social entrepreneurs with whom to work when expanding its community investments for electrifying villages and schools with solar technology into India, the company asked for assistance from the Clinton Global Initiative, leveraging that organization's network as well as its local experience and credibility.

### Applying lessons, especially from failures, to refine the program

"Research, develop, repeat" refers most importantly to the spirit of "learning as you go." Such an attitude characterizes an effective R&D effort and was a competency stressed in the CEO interviews. The ability to iterate through a less specified process requires some special capabilities among both managers and executives and also requires a culture amenable to risk-taking and to applying lessons from setbacks to chart a better course forward.

As John Reid of **The Coca-Cola Company** notes, "Nobody in our company thinks we're at the end of the journey; we're always looking

for a way to make things better." Successful companies incubate ideas in a part of the organization that enables and supports iteration, using each round as a learning opportunity—learning from it in a way similar to any pre-commercial strategy. Creating a management style that is more agile and responsive and investing small dollar amounts in each iteration (while still providing necessary oversight and controls) are important elements of this approach.

According to Beth Jenkins, a research fellow at the Harvard Kennedy School, "Success often occurs when companies are able to fail without it being a huge deal. Where there's pressure to get it right the first time, you never do. You're in a new market and you're experimenting. Whatever the case may be, you cannot predict everything that's going to happen in advance." (For an example of using an iterative process effectively, see the **S.C. Johnson & Son Inc.** case study, "Mitigating Risk While Betting on Success.")

"A company does not want people telling the community what they need, but rather someone with very big ears who can hear what the community needs."

Henrietta Holsman Fore, Chairman and CEO, **Holsman International**

## S.C. Johnson & Son, Inc.: Mitigating Risk While Betting on Success

### A philosophy of sustainability

SC Johnson, one of the world's largest makers of consumer homecare products, is a company that has long embraced the "triple-bottom-line" definition of sustainability—focusing on people, planet, and profit. In pursuing its commitment to driving social change, the company has adopted the philosophy of "fail small; learn big" as the key to the "people" aspect of its sustainability strategy. SC Johnson's emphasis is on practical learning and experimentation to overcome the lack of market and customer data needed to accompany an expansion into new geographies and to work with less advantaged consumer groups.

### On-the-ground data collection

To gather the needed data on consumer lifestyles and local traditions that shape product design and marketing strategy, SC Johnson has continued its strategy of embedding its own employees into target communities—something

"We are true believers in a holistic approach to sustainability and we're willing to learn by doing in order to have a positive impact in communities around the world."

Kelly M. Semrau, Senior Vice President - Global Corporate Affairs, Communication and Sustainability, SC Johnson

the company has been doing in parts of Africa for nearly ten years. When seeking to create sustainable opportunities for the company and local communities, a team from SC Johnson lived on-site in the Mathare settlement in Nairobi, Kenya, alongside nonprofit and academic partners to experience first-hand the issues faced by residents. This experience generated invaluable market data and also allowed the company to build relationships and determine the best partners in a region where trust in large institutions comes slowly.

### Learning from mistakes to generate insights

Leveraging its brands and products, SC Johnson's first moves were to introduce pesticide and household cleaning products into the settlement. These products help prevent insect-borne and hygiene-related diseases. Unfortunately, pilot testing demonstrated too big a gap between consumer incomes and the products' costs. However, the SC Johnson team gained valuable insights from these initial efforts, which led to a breakthrough: the Community Cleaning Services (CCS) program. As part of this initiative, local residents received valuable training in cleaning public and shared lavatories in buildings such as apartments and schools. In essence, the company created a totally new business model, one providing meaningful income for settlement residents working as cleaners and marketing staff for CCS and by improving hygiene for the community at large.

### A culture of patience, risk-taking, and learning

Carefully managing the scale and financial investment in such projects, along with a corporate culture that emphasizes learning, helps SC Johnson determine which social initiatives are viable and which are not. Such management also helps share insights across the organization. To make an initiative work, employees involved in product trials must publish and share their lessons learned, explain how insights gleaned in the past have been re-applied, and show what steps are being taken to make the venture truly sustainable.

Summing up the approach, Kelly M. Semrau, Senior Vice President - Global Corporate Affairs, Communication and Sustainability, explains: "We are true believers in a holistic approach to sustainability and we're willing to learn by doing in order to have a positive impact in communities around the world."



# Imperative Four: Rewire the Organization

When a company has had some initial successes with pilot projects within its Sustainable Value Creation program, it then looks to scale those pilots across other parts of the organization or to larger numbers of customers and constituents. If CEOs are to bring their efforts to scale, as with any large-scale strategic change, "rewiring" their organizations will be required over time—embedding new structures, communications, incentives, and metrics across the organization to sustain new behaviors and attitudes. Rewards, incentives, and governance structures are where Sustainable Value Creation will actually be promoted—and where it will succeed or fail, as indicated by the polling of CEOs at the CECP Board of Boards conference (see Figure 2-4).

## Aligning structures with strategy

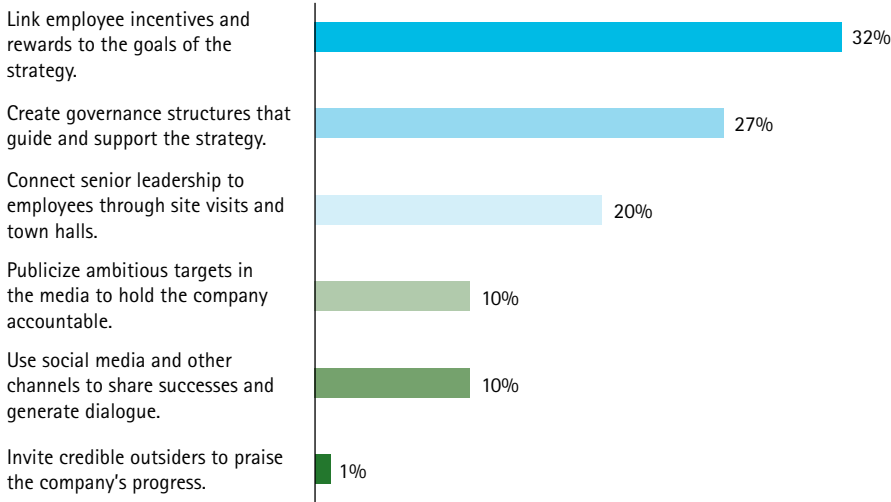
The structural changes needed to embed a Sustainable Value Creation orientation in corporate behaviors require new approaches to incentives, governance, and communications.

### Incentivize and reinforce

To reinforce and substantiate the company's commitment to Sustainable Value Creation, CEOs recommend modifying incentives so that new behaviors actually become woven into the organization. As employees are incentivized to contribute more effectively to the goals of the initiative, and then as they move into positions of greater oversight and responsibility, the goals of the program are more readily promoted.

Figure 2-4

Which approach to scaling a Sustainable Value Creation strategy across the company is most effective?



Source: CECP Board of Boards CEO Conference, 2011; N=57

According to Samuel Palmisano, the Chairman, President, and CEO of IBM: "We use an extensive set of incentives to engage our employees: some involve recognition and others are financial, matching skilled employee engagement with incentive grants. But most important is a set of IBM technology tools that maximize IBMers' ability to solve problems in a truly sustainable way, which has engaged more than 180,000 of our employees to contribute over eleven million hours of their time to societal causes globally in the last five years."

Embedding program goals into individual performance assessments is key. At **Accenture**, for example, the company has an innovative corporate social responsibility initiative, *Skills to Succeed*, with an ambitious goal of equipping, by 2015, 250,000 people around the world with the skills to get a job or build a business.



The initiative is so important to the company that performance objectives for the leadership team include *Skills to Succeed* targets. Similar performance objectives are also in place for other levels of the organization, including country-specific managing directors.

Ultimately, giving employees a vested interest in the program's success can be a way to build broad-based, self-perpetuating support (see **The Campbell Soup Company** case study: "Scaling the Strategy through Employee Engagement"). CEOs who have begun down the path of Sustainable Value Creation often remark that many employees derive great satisfaction from being involved in this type of strategy. Karen McArthur, Global Head of Corporate Responsibility at **Thomson Reuters**, believes that, for many employees, "It's a heart-based decision." It can be transformative for morale and corporate culture.

### Create effective governance structures

Sound governance is a way to embed Sustainable Value Creation even deeper in the way programs are managed and decisions made. As Figure 2-4 shows, governance structures that guide and support the strategy were named by CEOs as the second-most important way (after employee incentives) to scale Sustainable Value Creation strategy. This is testament to the fact that successful strategies are a shared effort that is reinforced through the organizational structures of the company.

Several examples of governance can be found among leading companies. **Nestlé S.A.**, for example, manages an ongoing program called *Creating Shared Value*—focused on developing sustainable solutions in the areas of water, nutrition, and

rural development while adhering to the basic business principle of generating a financial return. Across the enterprise, nearly every business unit and operating company has a *Creating Shared Value* project leader. Each leader is required to report regularly on what has been done to ensure accountability with regard to the program.

At **Dow**, the ownership of the company's sustainability agenda resides with the business units because the company knows that ongoing success cannot be driven solely from above, but also needs to be fostered across the company. As Bo Miller, Dow's Global Director of Corporate Citizenship, states: "The business units need to understand it—the central Sustainability and Corporate Citizenship team can provide expertise, but [executing] the strategy requires ownership at the functional level."

### Amplify the message

As with any initiative needing to be supported by effective change-management, communicating with employees regularly—reporting progress and sharing proof—is essential. CEOs have an especially important role to play here. At **GE**, for example, Chairman and CEO Jeff Immelt tracks progress against healthymagination and ecomagination targets every quarter and communicates that progress across the company.

A CEO should look for forums and communication channels through which to amplify key messages about initiatives to employees. Using a variety of channels such as employee newsletters, intranets, and town hall meetings is critical. A single channel can be overlooked, but mutually reinforcing channels—particularly those used by supervisors in their daily contact with employees—can be more convincing.

External experts can add credibility to the messaging. **DuPont**, for example, invited former U.S. President Jimmy Carter to address company employees about the impact of the work that DuPont had done with the Carter Foundation in Africa. As former DuPont CEO Chad Holliday recalls, "Getting a well-recognized speaker to tell our story for us is very important. It magnifies the results much more than if we'd told the story ourselves."

External communications are equally important in generating excitement and cementing commitment. Careful use of the media can help a program generate "buzz." For example, **Unilever** launched its *Sustainable Living Plan* and shared ambitious societal, environmental, and revenue goals for 2020 simultaneously in London, Rotterdam, New Delhi, and New York—with extensive media coverage across the world.<sup>vii</sup> This not only created excitement about the initiative; it also, almost certainly, created a feeling of greater accountability to meeting its goals.

## Case Study

# The Campbell Soup Company: Scaling the Strategy through Employee Engagement



### Ambitious destination goals

When Doug Conant became CEO of Campbell in 2001, he realized that employee engagement in corporate strategy was a significant challenge; he estimated that "for every employee who believed in the company's direction, another one didn't." Conant began to take measures to improve employee morale, but the effort really took off in 2006, when the company made an important business decision: to set an explicit corporate strategy to "advance a powerful commitment to sustainability and corporate social responsibility."

By 2009, progress was building and Campbell committed to a ten-year CSR business agenda of macro targets that included reducing its environmental footprint as well as levels of childhood obesity and hunger in ten communities in which the company operates. Reaching these objectives would attract more health-conscious consumers to the brand, generate savings from sustainability investments and packaging reductions, and reinforce the company's commitment to its local neighbors. Making it all happen, however, would take no less than a full-scale mobilization of all employees around these objectives.

### Leveraging the corporate culture

The company's senior leaders recognized that the speed and success of the program would require the support and ownership of the employees whose jobs were most closely connected to the program. This approach was only possible as a result of the attention given to building a

strong corporate culture—something that was a hallmark of Conant's first years as chief executive. Without an investment in honoring employees and building their engagement in the firm in return, such a broad strategic shift would not have been possible.

### Engage, incentivize, and mobilize

To begin the new initiative, a formal governance structure was created that included four chartered teams jointly led by the Vice President of Corporate Social Responsibility and senior executives from HR, operations, public affairs, and the business. Those team leaders then had autonomy in deciding what skills were needed on the teams as well as in recruiting members, setting goals, and regularly reporting progress to the Board of Directors. Each team gave itself a similar challenge: "What could we do to make a measurable impact if we had the right partners, investment, and focus?" Product lines in some business units—those focused on baked snacks—presented a challenge with the destination goal related to obesity. Here, goals were developed with a mind toward inclusiveness—recognizing the progress being made in removing sodium, trans fats, and artificial colors and in increasing the levels of whole grain.

This process of casting the net more widely—involving more employees in the work of the program—energized progress toward the goals throughout the company. Corporate and team goals became individual goals, too, by integrating metrics into personal performance plans, recognition systems, and the financial incentive compensation program.

### Nourishing communities and the bottom line

From 2007 to 2010, revenue from the nutrition line of Campbell products soared by \$1.2 billion. This part of the portfolio now makes up 32% of company revenue. In tandem with financial returns, the program has gained recognition: the company's line of Healthy Request® soups has won awards from the American Heart Association.

Reflecting on factors underlying the success of the initiatives thus far, Conant summarized: "You have to create a high-engagement culture. This can't be a program where you have one group of people championing the goals and another group that is expected to execute it. The people managing these projects have to own them and be passionate about them."

## Transforming the approach to measurement

What distinguishes a Sustainable Value Creation program from other corporate initiatives that aim to have a societal impact is a strategy that is profitable in addition to beneficial to society. By this standard, companies are not executing a Sustainable Value Creation strategy if they cannot demonstrate a link to profitability over the long term.

But most companies will also need to rewire the way they assess impact and measure the value that is being produced—beginning with an effective baseline, using right-sized metrics, and engaging measurement experts as is appropriate.

### Establish a baseline and use it to measure progress

With a Sustainable Value Creation program, it's important to establish early on a snapshot of conditions before the company's intervention began. This not only helps track progress, but can also be useful later in the project as new stakeholders emerge—people who may not otherwise appreciate the progress that has been made and may be inclined instead to critique companies for the distance they still have to go.

**Alcoa**, for example, asked local nonprofits in Brazil to conduct a baseline assessment of social and environmental conditions before Alcoa's arrival at the Juruti bauxite mine in the Amazon. Alcoa references that initial study to assess its positive impact and track progress toward defined goals.

### Use external measurement experts as necessary

In most cases, companies should not try to design all relevant metrics and collect all the data themselves. Partnering with other

data stakeholders to devise systems for aggregating and analyzing data is frequently more effective. In fact, for many social issues, organizations already exist that track relevant trends.

Sometimes, using data, standards, and metrics created by third parties can help to anchor a company's work in externally accepted frameworks. For example, **PepsiCo** publishes data related to its *Performance with Purpose* initiative in its annual report, sometimes using criteria established by credible third parties.

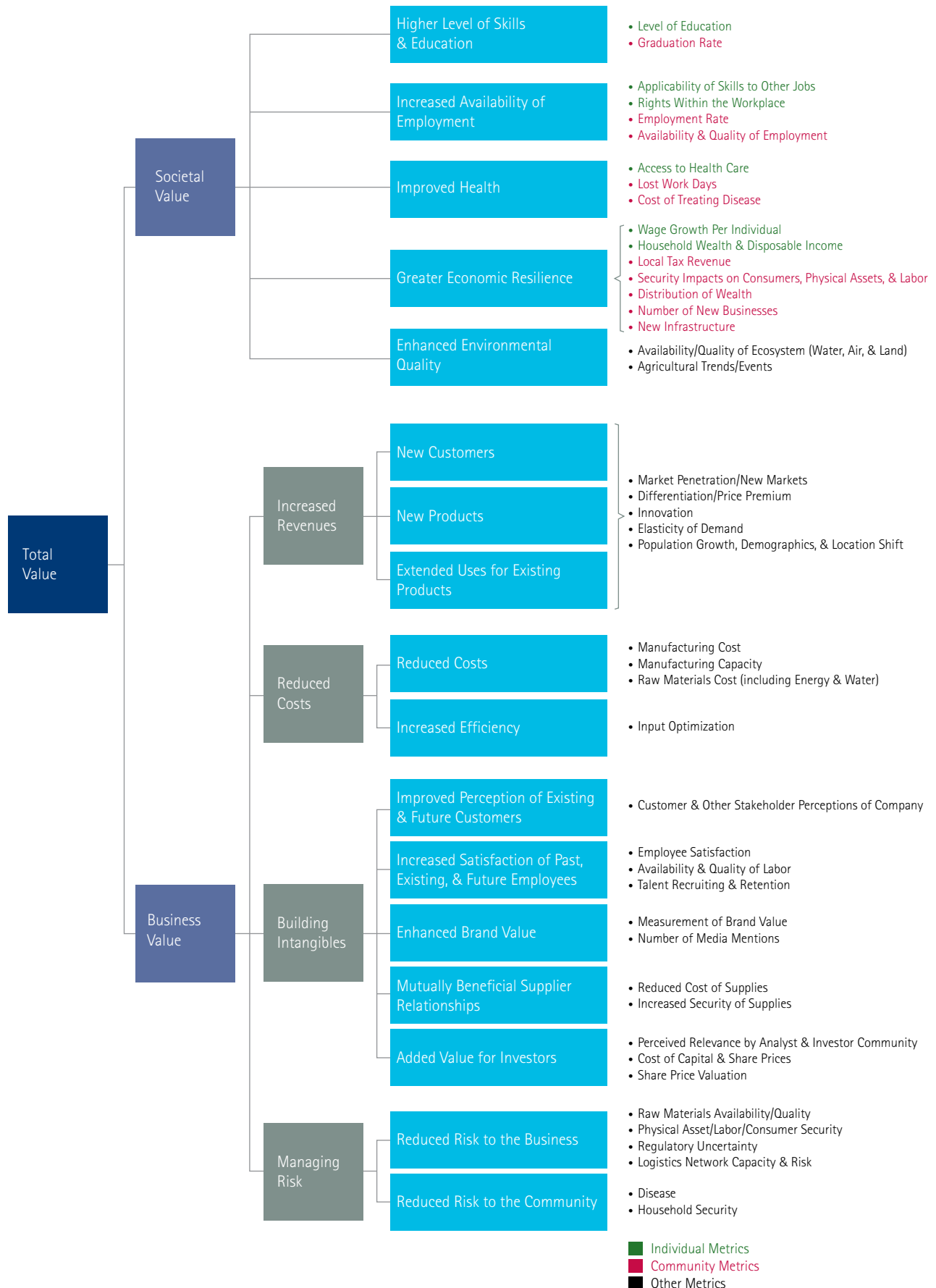
### Use appropriately sized metrics and models

Effective measurement is vital to success and therefore something practitioners across sectors are working to implement more effectively. As the complexity of programs continues to evolve, so too must measurement frameworks. Figure 2-5 presents a basic, non-exhaustive framework for understanding how a company can begin to measure the performance of Sustainable Value Creation initiatives. It captures an essential point: Measurement must take into account a broader concept of value, one focused on assessing both *business* and *societal* outcomes.

With both dimensions, it's important to size the measurement models to what is being examined. Models created to assess short-term impact are likely to yield more confusion than clarity if used to assess Sustainable Value Creation projects—which, as noted, generally have longer Return on Investment (ROI) horizons.

It's also important to think creatively when devising and applying metrics to assess business and societal impact. Many CEOs interviewed noted the importance of encouraging expansive thinking on this topic. For example,

Figure 2-5: An Indicative and Non-Exhaustive Framework for Measuring the Societal and Business Benefits of Sustainable Value Creation



**NYSE Euronext** CEO Duncan Niederauer has tasked his internal experts with answering the question, “What are some of the more creative ways we can think about measuring the impacts of our financial literacy programs?”

With business impact, companies should focus on both tangibles and intangibles. For example, in addition to the harder numbers like costs and revenues, they should consider measures such as reputation, brand value, employee engagement and recruitment, and community reputation.

In terms of societal impact, both quantitative data and qualitative measures are required. **Alcoa**, for example, measures the societal impact of its community-development activities around its mine in the Amazon using multiple measures such as growth in individual incomes, direct and indirect employment, and infrastructure development.

**GE** has developed “scorecards”—validated by external experts—to help it determine how successful its products and services are at achieving goals. For example, with healthymagination, the company tracks the success of its products in delivering better quality health care at a lower cost to more people. The marketing team then uses that data to communicate the program’s benefits.

## Integrating Sustainable Value Creation across the business

The implementation challenges of Sustainable Value Creation require careful attention and planning. At the same time, as the imperatives discussed in this chapter have made clear, meeting those challenges involves capabilities that CEOs and their companies already possess: managing risk, engaging employees and critics, regrouping after mistakes, and creating appropriate incentive and governance structures. These capabilities need to be adapted and extended, but they are already present within successful corporations.

As will be discussed in Chapter 3, embedding those capabilities in the business will require CEOs to set the proper tone and pace for the strategy, reinforcing the value of the program through strong and sensitive management of key stakeholders.

This work to integrate Sustainable Value Creation across the business is vital to overall success and achieving high performance, but also potentially transformative to a company and its people. As Peter Brabeck-Letmathe, Chairman of **Nestlé S.A.**, says: “When you integrate shared value creation into your strategic thinking, acting, and planning, it is sustainable. And that’s what I think is so exciting about it.”

“When you integrate shared value creation into your strategic thinking, acting, and planning, it is sustainable. And that’s what I think is so exciting about it.”

Peter Brabeck-Letmathe, Chairman,  
**Nestlé S.A.**





# 03

## The CEO's Role: Setting the Tone and Pace

"You've got to care about it in a meaningful way. You have to set the tone and pace and you have to be famous for caring about it in your own company."

Bill Green, Chairman, **Accenture**

The fifth and final Sustainable Value Creation imperative focuses specifically on the role of corporate CEOs and the leadership capabilities and behaviors required of them to drive the long-term success of the strategy and high performance for the entire company. In the face of the positive energy of some stakeholders and the inevitable resistance of others, it's up to the CEO to keep the vision alive and move the organization in the right direction.

In addition to bringing specific expertise to the table, CEOs have a pivotal and very personal role to play as stewards and advocates. As **Accenture's** Chairman Bill Green puts it, "You've got to care about it in a meaningful way. You have to set the tone and pace and you have to be famous for caring about it in your own company."



# Imperative Five: Reinforce the Value

Keeping the entire company focused and motivated, as well as all stakeholders committed, requires having four "courageous conversations."

Figure 3-1 summarizes four of the especially critical tensions to which CEOs must attend to reinforce the value of the strategy. Some employees will react negatively to a Sustainable Value Creation agenda while others will be impatient that the company isn't advancing faster. Some consumers are unlikely to gravitate toward sustainable products while others may state interests that they don't back up with their wallets. When it comes to investors, CEOs must balance the relentless pressure for short-term returns against the knowledge that Sustainable Value Creation represents an opportunity to achieve substantial returns in the long term. Finally, executives must reconcile their natural competitive drive against the cooperative actions that can sometimes bring the power of different entities or an entire industry to bear on societal issues.

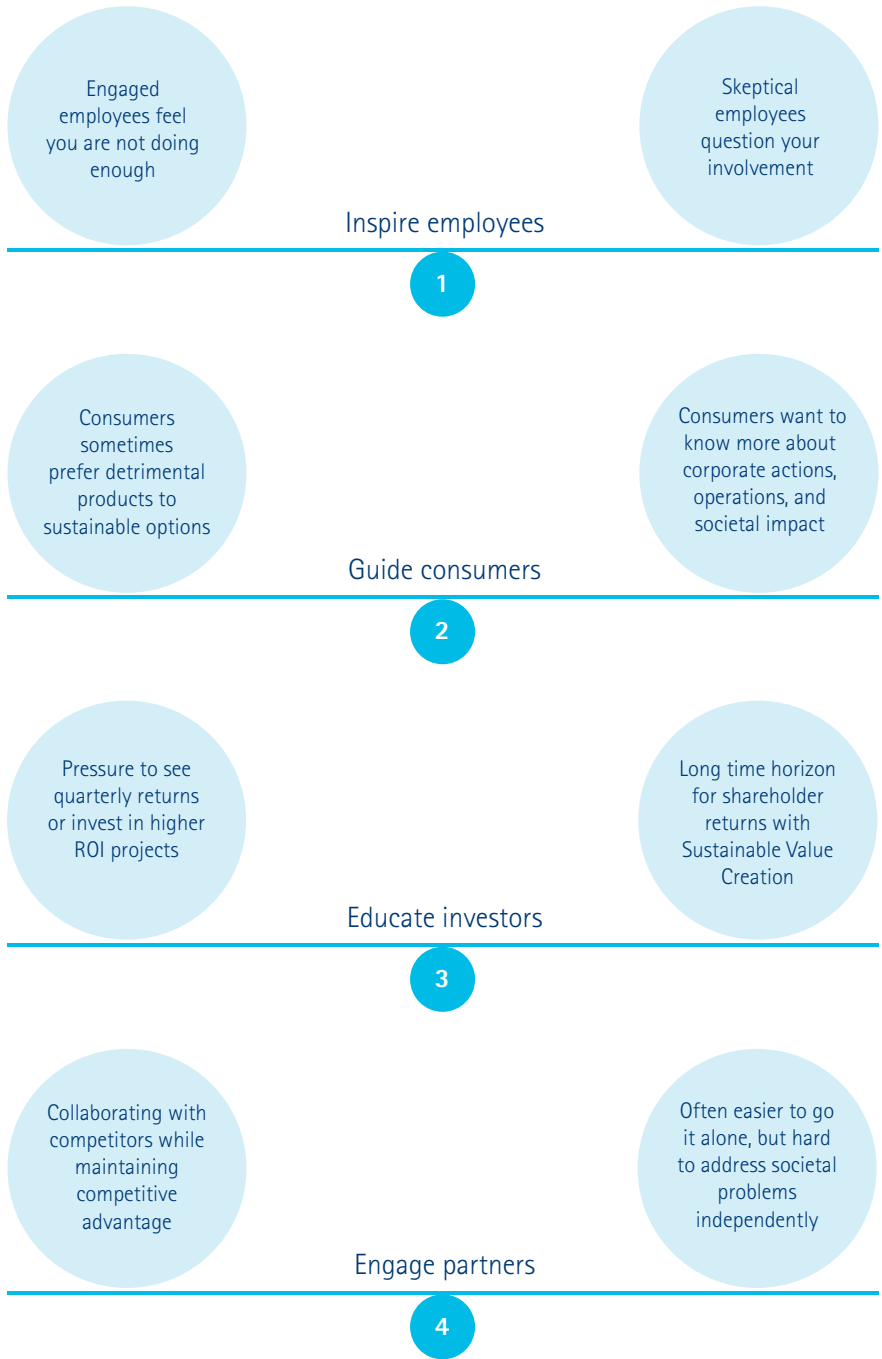


Figure 3-1: Four Courageous Conversations: A Balancing Act

## Inspire Employees

Many employees will quickly understand and support the Sustainable Value Creation agenda. In fact, passionate employees within many companies are already proactively asking questions about what the company is doing in this regard and jobseekers are raising these issues with recruiters. Such passion can be a double-edged sword, however. Highly engaged employees can become dismayed if progress is not as swift as they might wish it to be.

On the other hand, skeptical or cynical employees all along the corporate hierarchy may resist the strategy, viewing it as a marketing or branding effort rather than as a substantive program—or even as an unwanted addition to their day-to-day responsibilities. Resistance can be particularly acute within middle management, where profit and loss responsibilities emphasize hitting aggressive quarterly targets. Despite communications highlighting the importance of the firm's Sustainable Value Creation strategy, employees may nonetheless stick to the same short-term targets as before. Addressing counterproductive employee reactions requires that CEOs communicate authentically and gain senior-level sponsorship.

"In the first six or nine months, if you don't get the message out with the right stories behind it, it won't stick. Keep repeating the same simple message again and again, inside and outside the company."

Indra Nooyi, Chairman and CEO,  
**PepsiCo**

"It is the easiest sell in the world as long as it's built into the fabric of our plans to go to market. This is what everybody wants to work on. It has to be part of the fabric of your business strategy. If it's added on and they have to do all the other things, too, it doesn't work."

Doug Conant, President and CEO,  
**The Campbell Soup Company**

## Communicate authentically

A CEO must take personal responsibility for communicating the overall agenda of Sustainable Value Creation, taking special care to speak in his or her own, authentic voice. A balanced message is particularly important: CEOs should encourage employees to have optimistic yet realistic expectations for the results the strategy will deliver, and when.

Executive communications must touch both minds and hearts. As Indra Nooyi, Chairman and CEO of **PepsiCo**, states: "You have got to get the message out with missionary zeal. But you can't do it with just data and facts. In the first six or nine months, if you don't get the message out with the right stories behind it, it won't stick. Keep repeating the same simple message again and again, inside and outside the company."

As Doug Conant, **Campbell's** President and CEO, says: "It is the easiest sell in the world as long as it's built into the fabric of our plans to go to market. This is what everybody wants to work on. It has to be part of the fabric of your business strategy. If it's added on and they have to do all the other things, too, it doesn't work."

### Gain senior-level sponsorship

Creating buy-in among the senior management team is another key part of the overall plan to inspire and support employees across the organization. CEOs need to motivate and convince the management team, but then must move them to act on behalf of the initiative—becoming both ambassadors and role models to the rest of the company. According to Ivan Seidenberg, Chairman of the Board and CEO of **Verizon Communications, Inc.**, "This issue we're talking about requires a set of reflexes on the part of senior management: instead of saying it, they say it *and do it*."

The attention to communications, sponsorship, and governance sets the expectation—with all employees—that the CEO is in it for the long haul. Instilling Sustainable Value Creation into the processes and culture of a

company helps to ensure longevity of the strategy. As Marilyn Carlson Nelson, Chairman and former CEO of **Carlson**, notes, "It becomes embedded throughout if you have a culture that promotes stewardship."

If it becomes part of the deep character of the company, it has a better chance of transcending the tenure of a single executive leadership team. This is important to the success of Sustainable Value Creation initiatives, since they are, by nature, long-term endeavors. According to **Accenture's** Chairman Bill Green, "If it's just a program, then two or three years later it is likely to be replaced by something else. It has to be personal to the CEO but also personal to the character of the company, so that it transcends generations."

"This issue we're talking about requires a set of reflexes on the part of senior management: instead of saying it, they say it *and do it*."

Ivan Seidenberg, Chairman of the Board and CEO, **Verizon Communications, Inc.**

## Guide Consumers

Consumer relationships represent another kind of balancing act. Interviewed CEOs frequently cited the extremes of consumer behavior that they have encountered. At one end of the spectrum, a company can be too far ahead of its market, creating products that, while sustainable, fall too far outside the typical consumer's comfort zone, tastes, or willingness to pay. Even if consumers purport to be enthusiastic about greater environmental and societal sustainability, these claims are not always reliably backed up by their buying patterns.

By contrast, depending on the particular Sustainable Value Creation initiative being pursued, companies may find their customer base to be ahead. For example, some companies report an ever-increasing interest by consumers all over the world in knowing more about corporate actions and operations. That may mean being able to access the lists of ingredients in a company's cleaning products, or its track record of supporting minority-owned businesses, or its wage strategies. Increasingly, this demand for transparency engenders an interest in the company's role in addressing societal issues.

### Build awareness and steer demand

One aspect of balancing consumer expectations and behaviors is especially challenging: Some consumer interests are not necessarily good for business or society, often for reasons of preference, price, or convenience. But if a company does not meet those specific needs, chances are one of its competitors will.

What can CEOs do to resolve the dilemma? Educating consumers signals a new direction for many companies—one that demands commitment, vision, and direction from the top. A growing part of a company's role, led by the CEO, will relate to educating consumers on the societal impacts of the choices they make—a delicate balance, to be sure. Engaging with policy makers and consumer groups to understand consumer behavior better, raise awareness, and shape consumer demand will not only guide customers but also steer a Sustainable Value Creation strategy.

**Aetna Inc.** uses market research to understand customer needs and possible intervention points to improve health outcomes and the effectiveness of health insurance. Ronald Williams, former Chairman of the company, points out that, "We know that about one-third of people want a lot of information and will take action to improve their health status. And about one-third are not engaged, but could be with the right health information. We then ask ourselves, 'If they are engaged, how do we help make their engagement easier?' If they are not engaged but could be, we ask, 'What do we need to do to help them get engaged?'"

### Be persistent in the face of initial setbacks

Another aspect of leadership courage is keeping a determined focus on the ultimate goal, even in the face of initial setbacks. It is not uncommon for a company to design, test, and deliver a product that it believes meets all of the criteria of the Sustainable Value Creation definition—but which then fails to

live up to market expectations. When that happens, executives need to redouble their efforts to understand and address consumer needs.

While a company should conduct its own case-by-case analysis to determine the appropriate level of investment, the CEO's mandate to stick with the issue—allocating commensurate resources to continue development—is the most powerful demonstration of the company's commitment to the potential competitive advantage of the strategy. When disappointments occur, CEOs can set an expectation of continuous learning and improvement and iterate throughout the development process to make future success more likely.

## Educate Investors

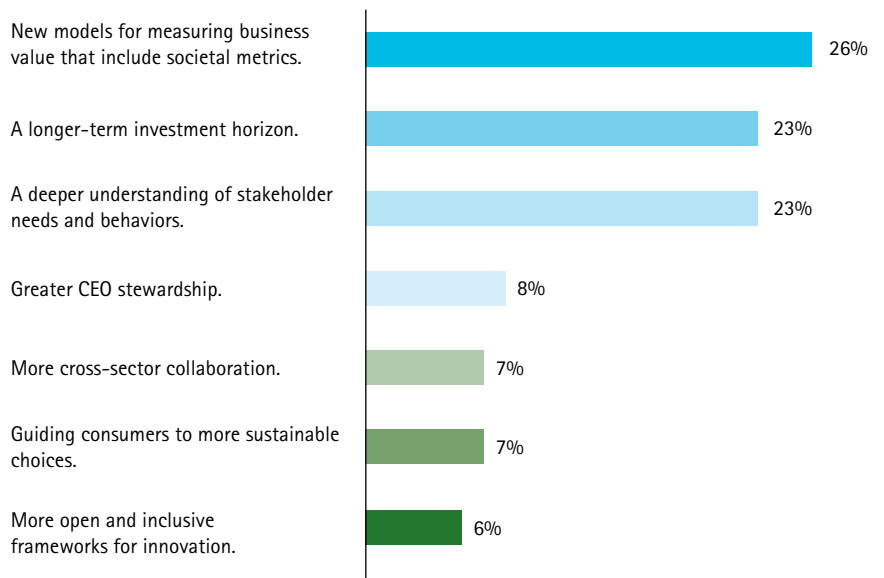
Asked to identify the primary difference between a Sustainable Value Creation strategy and a more traditional business strategy, CEOs answered most commonly: "new models for measuring business value that include societal metrics." Longer-term investment horizons was another key difference noted by executives polled. (See Figure 3-2.) These differences point to the challenges CEOs often face in communicating the benefit of Sustainable Value Creation opportunities to investors and analysts.

Strategies that blend societal and business outcomes will likely not be evaluated using the same criteria as more traditional business opportunities—from the design stage all the way through to measuring success. As noted earlier, criteria that link positive societal impact and business benefit are more likely to be used to evaluate Sustainable Value Creation opportunities.

Until business and societal impact can be demonstrated—an impact whose ROI may not be fully appreciated until several years after the project was first incubated—interim measures will need to be used as proxies. As Chad Holliday, former CEO of **DuPont** and now Chairman of the Board of **Bank of America**, explains: "With sustainability, there can be an inherent tension between looking for quarterly results for financial markets and the longer time that it takes to implement a social program as well as to see the results."

Figure 3-2

A strategy that benefits society and business differs most from "business as usual" in that it requires:



Source: CECP Board of Boards CEO Conference, 2011; N=56

"With sustainability, there can be an inherent tension between looking for quarterly results for financial markets and the longer time that it takes to implement a social program as well as to see the results."

Chad Holliday, former CEO, **DuPont**;  
Chairman of the Board, **Bank of America**

## Create opportunities for CEO-analyst engagement

CEOs have an important role to play in proactively engaging the investment community. Investors will not change merely because of good ideas; they want to see results. Companies and boards need to tell investors what they are doing and why it is of business value. One way to begin this process is for CEOs to work with their own Boards of Directors, clearly outlining a strategy that seeks to balance the longer-range returns of Sustainable Value Creation with short-term business realities.

In discussing the Sustainable Value Creation strategy, outlining the progress made and sharing additional progress with analysts and investors on an ongoing basis will also help to keep them "on board." Emphasizing the potential market opportunity and business benefits in terms that are valued by the market—measures such as revenue gains, cost reduction, and risk management, tethered to realistic time horizons—are most likely to be effective.

## Explore a revised set of metrics

Another aspect of this courageous executive conversation is in advocating richer, comprehensive metrics that demonstrate financial and societal impacts. Chapter 2 discusses various approaches to measurement. There are also signs that some within the analyst community are beginning to take into account the different metrics needed to assess the performance of a company moving toward Sustainable Value Creation. Some movements focused on socially responsible investments have arisen and there is an increasing number of indices that use sustainability and responsible management as a screen.

## Engage Partners

Successfully having an impact on profound, fundamental societal problems is something that can rarely be accomplished by a single organization acting alone; partnerships and effective collaboration are almost always required. Yet going outside the long-accepted boundaries to cooperate with a wider set of partners requires another kind of courage.

Collaboration and partnerships can be difficult, but also essential, as it is often nearly impossible for any entity to address, meaningfully, a fundamental societal problem alone. As Jim Rogers, Chairman, President, and CEO of **Duke Energy Corporation**, states, "If you're willing to listen, share an idea and work in a collaborative way, you really create a much better idea and outcome."

Finding an optimal set of collaboration partners was deemed challenging by most of the CEOs interviewed. It is not necessarily within the core competence of companies and their executives to look for and choose institutions across such a wide spectrum and then find optimal matches between the goals and competencies of cooperating companies. Once those relationships are established and working, however, they create a kind of multiplier effect on the impact a company can make.

"If you're willing to listen, share an idea and work in a collaborative way, you really create a much better idea and outcome."

Jim Rogers, Chairman, President, and CEO, **Duke Energy Corporation**

## Include cross-sector collaboration in planning

Certain types of collaboration are more prevalent than others. For example, cross-sector coalitions are important but often challenging to deploy, in part because of a lack of familiarity with the nuances of the other institutions' aims, resources, constraints, and operating practices. Many companies are working to develop more experience in this area. For example, **NYSE Euronext** is continually exploring opportunities to partner with government agencies and other organizations to promote financial literacy. As the company's CEO Duncan Niederauer eloquently put it: "If you find something where other companies or other enterprises are trying to have a similar impact, our general view is 1+1+1 can be a lot more than 3."

"If you find something where other companies or other enterprises are trying to have a similar impact, our general view is 1+1+1 can be a lot more than 3."

Duncan Niederauer, CEO, **NYSE Euronext**

Businesses are increasingly pursuing breakthrough ideas through these types of collaborations. **Microsoft** and **Toyota**, for example, have announced a partnership focused on the development of smart-grid technology in which electricity can be used more efficiently, enabling power to be harnessed from renewable resources.<sup>viii</sup> The work will include the development of software that can monitor vehicle battery levels and log the amount of electricity generated from renewable energy.



### Explore “cooperative competition”

Another area with untapped potential is collaborating within a company's own industry—even with direct competitors—as part of a Sustainable Value Creation strategy. Companies must balance their instincts for proprietary gains against the benefits that can accrue through some forms of industry cooperation. No one wants to give a competitor access to a strategy that comes with marketplace advantage. On the other hand, cooperation among multiple companies can actually establish a foundation for driving even more meaningful competition.

In some instances, there will be opportunities where the collective power of an industry can create something beyond the scope, scale, or capabilities of any individual company. In fact, some companies are already exploring areas of cooperation. In certain cases, sharing infrastructure can help reduce costs and increase reach. Some companies in the wireless industry, for example, have entered into agreements with competitors to share network components.

**“We should not be competing as individual companies to improve the quality of health care in America but working collaboratively to do so.”**

**Ronald Williams, former Chairman, Aetna Inc.**

An industry working together to improve societal outcomes, to develop networks, or build infrastructure in certain markets can positively shape the environment in which they compete, to everyone's advantage.

As Ronald Williams, former Chairman of **Aetna Inc.**, notes, “We should not be competing as individual companies to improve the quality of health care in America but working collaboratively to do so.”

Working collaboratively to improve the competitiveness of a country and the viability of communities can actually uncover a plethora of opportunities for positively affecting fundamental societal issues while also pursuing long-term profitability.

### A call for leadership

The CEOs whose companies have advanced on the path to Sustainable Value Creation understand that they have a transformative role to play, but also that their leadership capabilities will be transformed through ongoing learning. Says **PepsiCo's** Indra Nooyi: “If you're willing to be a learning CEO, and if you're truly willing to understand at the gut level the problems that countries are facing and how you can be a solution for their problems, you can create value for your business and for society in both the short term and the long term—you can create performance with purpose.”

The CEOs interviewed see this leadership imperative as a very personal one. As Marc Benioff, Chairman and CEO of **salesforce.com**, states, “It is my job to take our initiatives for positive social change and invite all of our partners and customers to participate in making it bigger and, ultimately, more impactful.”

Each company's opportunities and readiness will vary, but strong and insightful leadership will be the common denominator for all companies that set their sights on the business and societal transformation that comes with Sustainable Value Creation.

**“It is my job to take our initiatives for positive social change and invite all of our partners and customers to participate in making it bigger and, ultimately, more impactful.”**

**Marc Benioff, Chairman and CEO, salesforce.com**

## Conclusion: Accelerating the Journey

Sustainable Value Creation redefines the norms of business when it comes to a company's relationship to communities, consumers, and markets. Whether a company is feeling a push from competitive pressures, resource constraints, and demands for growth or a pull from stakeholder expectations and new markets, the mandate for change is in the air.

## Acting on the imperatives

The building blocks for success with a Sustainable Value Creation strategy already exist within most companies and will employ many of the same tools and techniques used to support any large-scale strategic shift. However, the link to societal issues does represent a significant expansion of a company's sense of its own scope—requiring that the implementation of Sustainable Value Creation proceed with several adaptations to “business as usual.”

The five imperatives discussed throughout this report highlight the most crucial distinctions, leading to a set of corresponding questions that CEOs seeking to benefit from Sustainable Value Creation should ask themselves to help plot their next steps:

1. What societal issues are closest to our company's core business objectives?
2. How can our internal and external networks help us to prioritize those issues and pinpoint the optimal scope of our involvement most effectively?
3. What aspects of our corporate culture might accelerate or inhibit the iterative learning essential to the success of this strategy?
4. What obstacles might we encounter as we scale this strategy and what incentives, metrics, and structures can help us overcome that complexity?
5. What conversations and messaging will be most important to our ability to inspire, educate, and engage with our key stakeholders?

## Signs that you're on the right path

As corporate leaders address these questions as part of an overall Sustainable Value Creation implementation plan, how can they best monitor progress? How does a company know when it is on the right path toward that longer-term goal? When asked what to look for, CEOs highlighted the following common indicators:

- Relevant societal issues appear frequently and prominently in the company's strategic plan.
- Positive examples of Sustainable Value Creation are found in increasing areas across the organization rather than only in select functions, regions, or subsidiaries.
- The work tells the story of the company in an authentic way that resonates deeply with stakeholders.
- Employees support the efforts and contribute their own ideas and solutions; moreover, mechanisms are in place to capture these employee-fueled innovations.
- Regular, ongoing educational and communications programs exist that encourage new thinking and behaviors.
- The company can point to examples of measurable business benefits associated with the strategy, such as higher profits or lower costs, as well as improved societal outcomes.

There is no denying some of the risks involved in a strategy like Sustainable Value Creation. Yet CEOs are now aware that greater liabilities arise from continuing on traditional paths: the risk that growing societal challenges will become barriers to growth, and that opportunities for innovation and competitive advantage will be lost. Those who delay may find it very difficult to make up for lost time.

## Transformative business opportunities

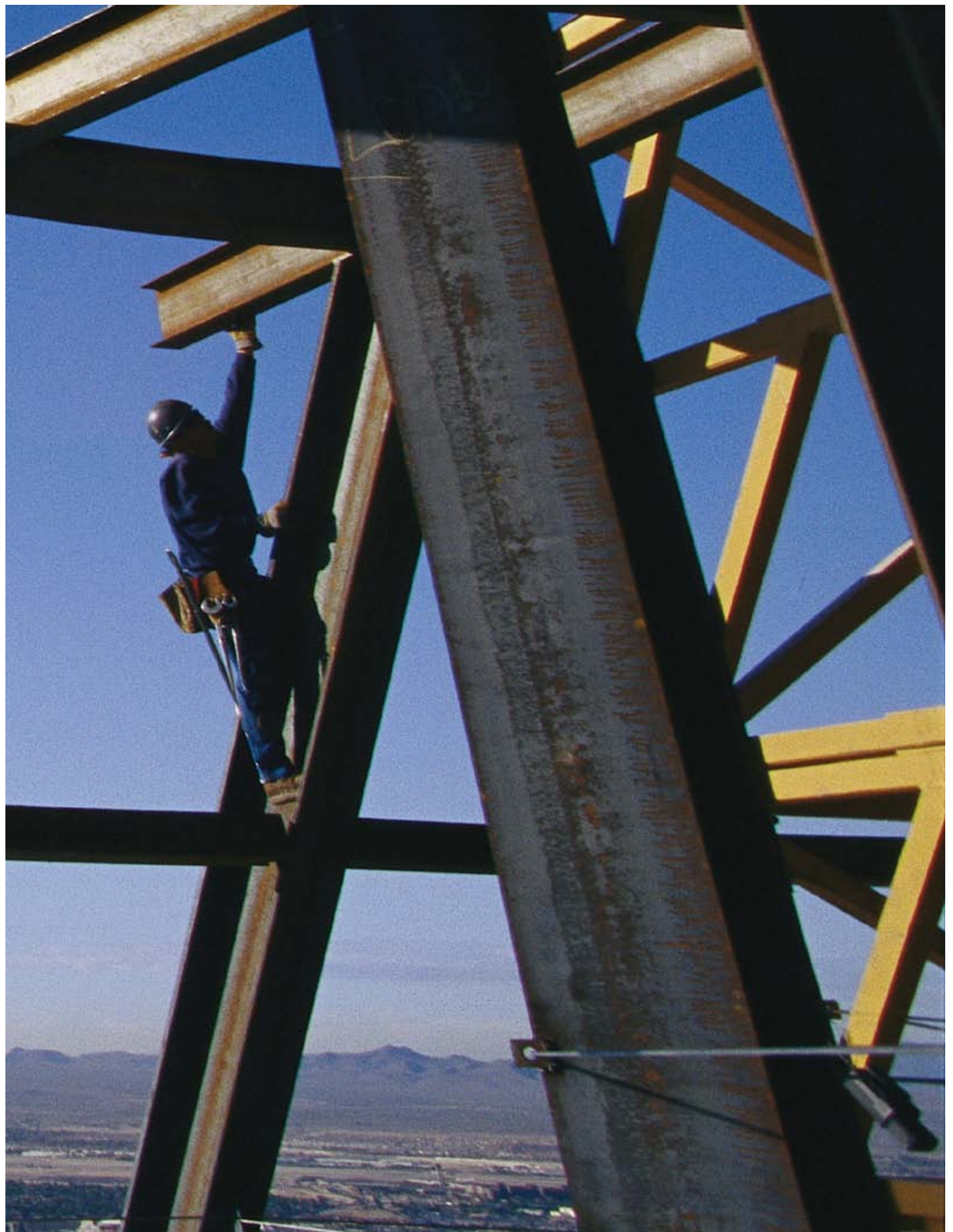
Given their increasing convergence, the fusion of corporate interests with societal concerns is the overarching imperative facing business today.

As CEOs examine their companies' capabilities in light of a Sustainable Value Creation strategy, they sense both comfort and challenge. On one hand, CEOs likely excel at many of the required competencies: understanding consumer needs, investing in innovation, mobilizing around change, creating markets, and managing a complex ecosystem of stakeholders. On the other hand, executives know they must extend capabilities in other areas and in some cases develop new ones if they are to realize the full potential of Sustainable Value Creation.

Ultimately, Sustainable Value Creation has transformative power both at the level of the individual enterprise—where the strategy serves as a filter through which all new business opportunities and investments are evaluated—and more broadly: helping companies from all industries to engage with their communities as true partners working together for mutual advancement.







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## CEO Interviewees

**William D. Green**, Chairman, Accenture

**Ronald Williams**, Former Chairman, Aetna Inc.

**Klaus Kleinfeld**, Chairman and Chief Executive Officer, Alcoa, Inc.

**Charles Holliday**, Chairman of the Board, Bank of America and Former Chief Executive Officer, DuPont

**Douglas Conant**, President and Chief Executive Officer, The Campbell Soup Company

**Marilyn Carlson Nelson**, Chairman and Former Chief Executive Officer, Carlson

**Jim Rogers**, Chairman, President, and Chief Executive Officer, Duke Energy Corporation

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**Joseph Jimenez**, Chief Executive Officer, Novartis AG

**Duncan Niederauer**, Chief Executive Officer, NYSE Euronext

**Indra Nooyi**, Chairman and Chief Executive Officer, PepsiCo

**Marc Benioff**, Chairman and Chief Executive Officer, salesforce.com

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## Thought Leader Interviewees

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**Kate Robertson**, UK Group Chairman, HAVAS Worldwide/Euro RSCG Worldwide

**David Stangis**, Vice President, Corporate Social Responsibility, The Campbell Soup Company



**John Reid**, Vice President of Corporate Social Responsibility, The Coca-Cola Company

**Nick Robins**, Head, HSBC Climate Change Centre of Excellence, HSBC Bank plc

**David Kepler**, Executive Vice President, Business Services Group, Chief Sustainability Officer and Chief Information Officer, The Dow Chemical Company

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## CEO Conference Attendees

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**Daniel J. Sullivan, Jr.**, Collette Vacations

**Antonio Quintella**, Credit Suisse

**Badr H. Jafar**, Crescent Petroleum

**Clarence Otis, Jr.**, Darden Restaurants, Inc.

**Barry Salzberg**, Deloitte LLP

**Jim Rogers**, Duke Energy Corporation

**Richard Edelman**, Edelman

**Raza Jafar**, Enshaa PSC

**Simon Liang**, Evergreen Industries Group

**James Shen**, Evergreen Industries Group

**David Bock**, FCC Advisors

**Cherie Liem**, GITI Group

**Wu Lin**, Hangzhou Huada Industrial Group

**Frédéric de Narp**, Harry Winston

**Alan G. Hassenfeld**, Hasbro, Inc.

**Henrietta Holsman Fore**, Holsman International

**Irene Dorner**, HSBC Bank USA, N.A.

**Zhang Jun**, Huaxing Environmental Group

**Kris Gopalakrishnan**, Infosys Technologies, Ltd.

**Michael I. Roth**, Interpublic Group

**John B. Veihmeyer**, KPMG LLP

**Peter L. Malkin**, Malkin Holdings LLC

**Jay Brown**, MBIA Inc.

**Alan D. Wilson**, McCormick & Company, Incorporated

**Harold McGraw III**, The McGraw-Hill Companies

**Dominic Barton**, McKinsey & Company

**Seiei Ono**, Mitsubishi International Corporation

**Raymond W. McDaniel, Jr.**, Moody's Corporation

**Samer AlSaifi**, Morgan Stanley

**David Stern**, National Basketball Association

**Robert B. Catell**, National Grid

**Ted Mathas**, New York Life Insurance Company

**Duncan Niederauer**, NYSE Euronext

**Shelly Lazarus**, Ogilvy & Mather

**Thomas Lundgren**, The One Planet

**Nader Mousavizadeh**, Oxford Analytica Ltd.

**David Young**, Oxford Analytica Ltd.

**Li Lulin**, Pan-China Group

**Renata de Camargo Nascimento**, Participações Morro Vermelho

**Olga Stankevicius Colpo**, Participações Morro Vermelho

**Indra Nooyi**, PepsiCo

**Maroun Semaan**, Petrofac

**Surya N. Mohapatra**, Ph.D., Quest Diagnostics Incorporated

**Karim Khoja**, Roshan/Telecom Development Company Afghanistan Ltd.

**Donald E. Felsing**, Sempra Energy

**Gerald L. Storch**, Toys“R”Us, Inc.

**Jay S. Fishman**, The Travelers Companies, Inc.

**Robert Wolf**, UBS

**Stephen J. Dannhauser**, Weil, Gotshal & Manges LLP

**Hikmet Ersek**, The Western Union Company

**Mark Angelson**, World Color Press

**Charlie Rose** (moderator)

### Special Guests at the CEO Conference

**John Engler**, Business Roundtable

**Xiao Kejian**, China World Peace Foundation

**Yeuk Wang Li**, China World Peace Foundation

**Michael Hastings**, CBE, KPMG LLP

**Jonathan Spector**, The Conference Board

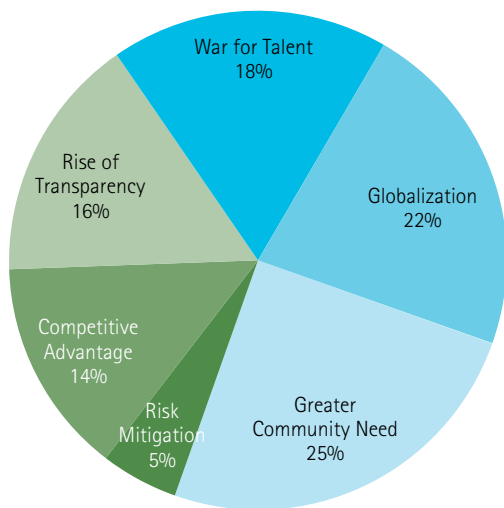
# Appendix 1: References

- i Michael E. Porter and Mark R. Kramer (2011). "Creating Shared Value," Harvard Business Review. January-February 2011.
- ii The Dow Chemical Company (2011). <http://www.dow.com/sustainability/goals/world.htm>. Accessed 10 May 2011.
- iii Steve Lohr (2010). "G.E. Goes With What It Knows: Making Stuff," The New York Times. <http://www.nytimes.com/2010/12/05/business/05ge.html>. Accessed 10 May 2011.
- iv Ibid.
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- viii Microsoft (2011). "Microsoft and Toyota Announce Strategic Partnership on Next-Generation Telematics." <http://www.microsoft.com/presspass/press/2011/apr11/04-06toyotapr.mspx>. Accessed 10 May 2011.

# Appendix 2: CECF Board of Boards CEO Conference Poll Questions and Results

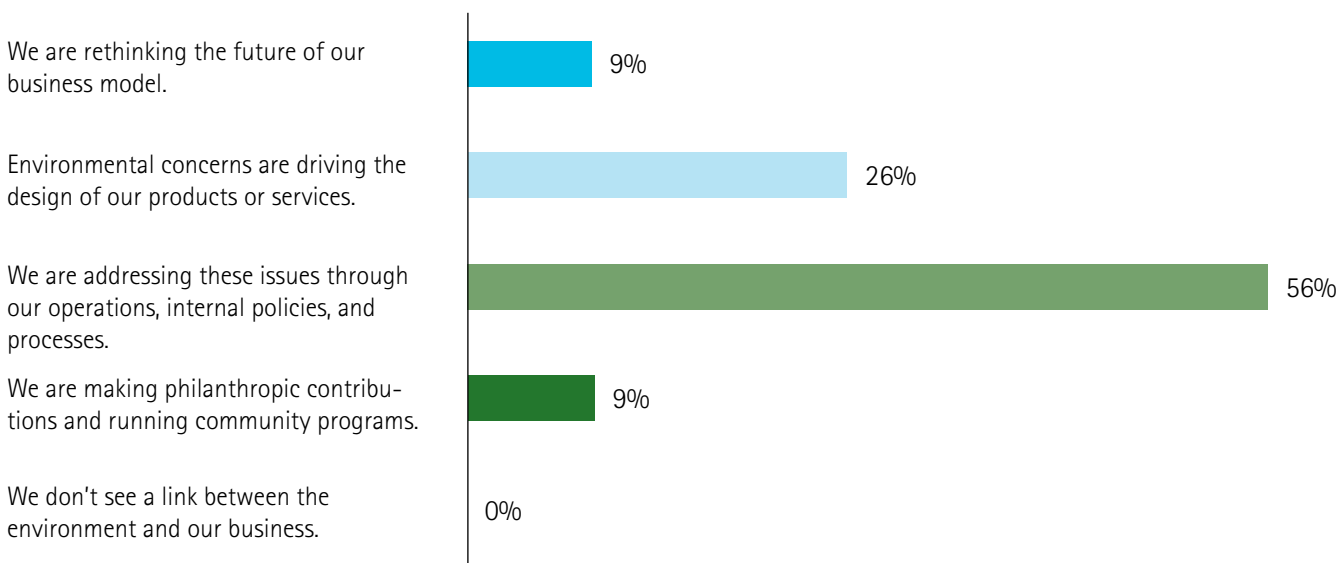
These poll question results reflect the interactive attendee responses from the Sixth Annual CECF Board of Boards CEO Conference, February 2011, New York City. For a list of participants, see pages 45–46.

Over the last five years, what trend has most driven companies to focus on solving societal problems?

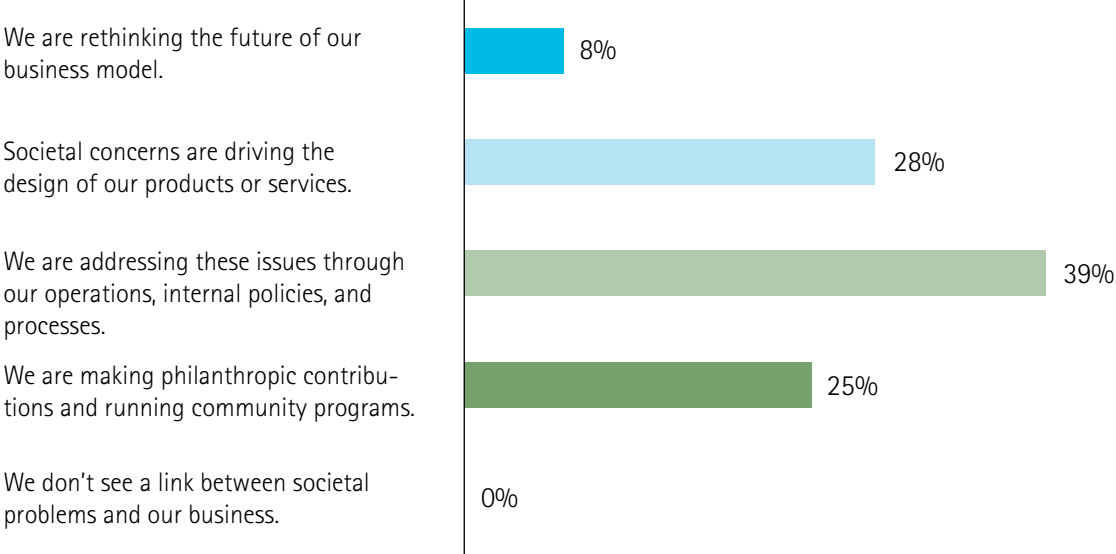


- War for Talent:**  
The best employees expect to work for a values-driven employer.
- Globalization:**  
Market integration and expansion have brought companies closer to social issues faced by new stakeholders.
- Greater Community Need:**  
The public sector alone cannot meet rising needs.
- Risk Mitigation:**  
Corporate missteps are costly, especially in today's climate of mistrust.
- Competitive Advantage:**  
Opportunities exist to cut costs, generate revenue, and/or foster the next generation of consumers.
- Rise of Transparency:**  
Stakeholders have an increased appetite for information, compelling companies to share more and do more.

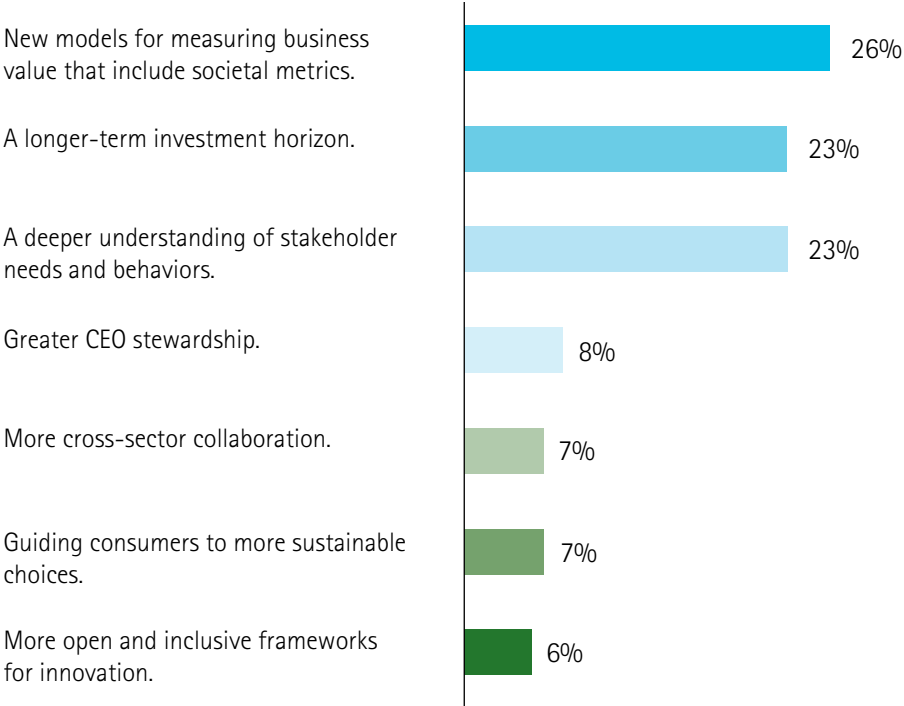
How are concerns about environmental sustainability changing the way you do business?



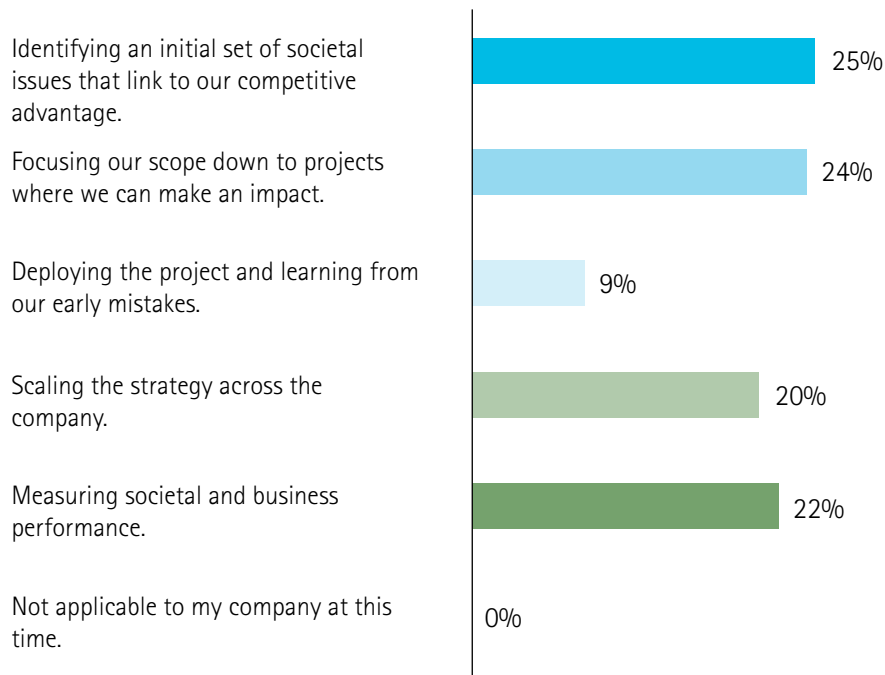
How are societal problems changing the way you do business?



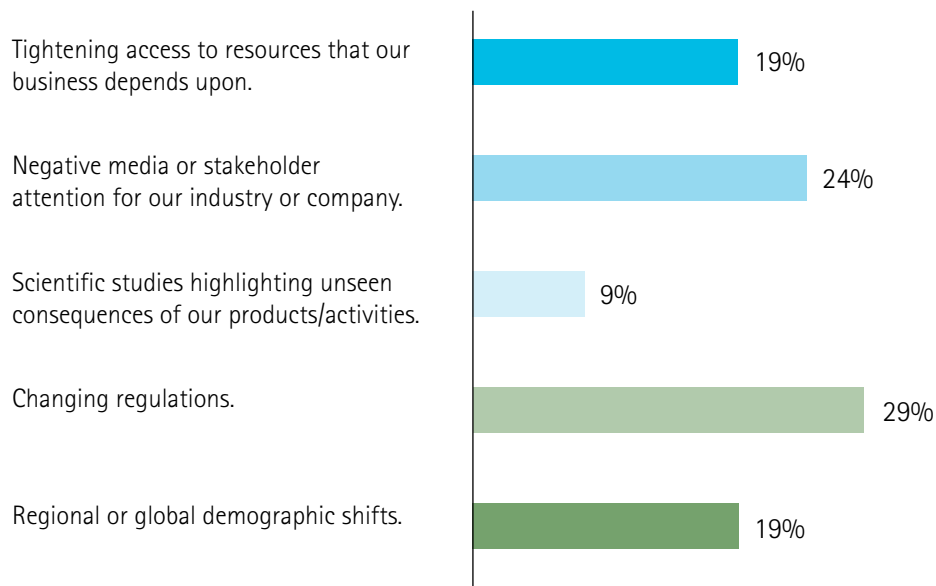
A strategy that benefits society and business differs most from "business as usual" because it requires (pick two)



**In implementing a Sustainable Value Creation strategy, which phase did your company find most difficult?**

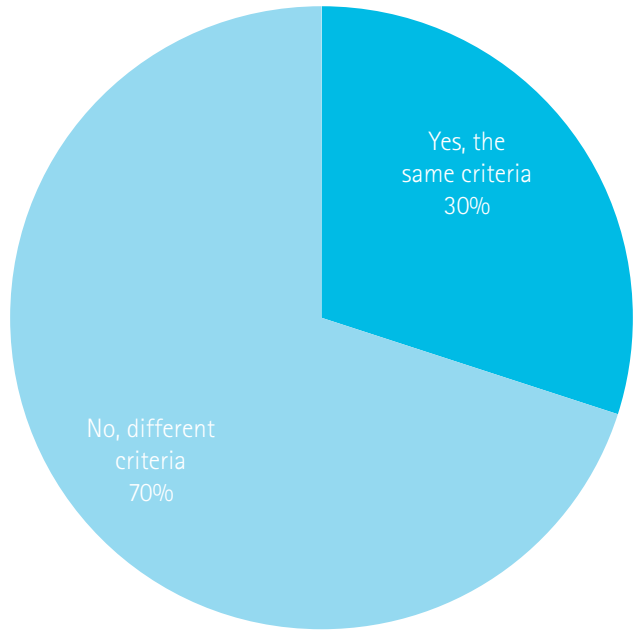


**Which of the following factors most likely points to underlying social issues that are relevant to your business? (pick two)**

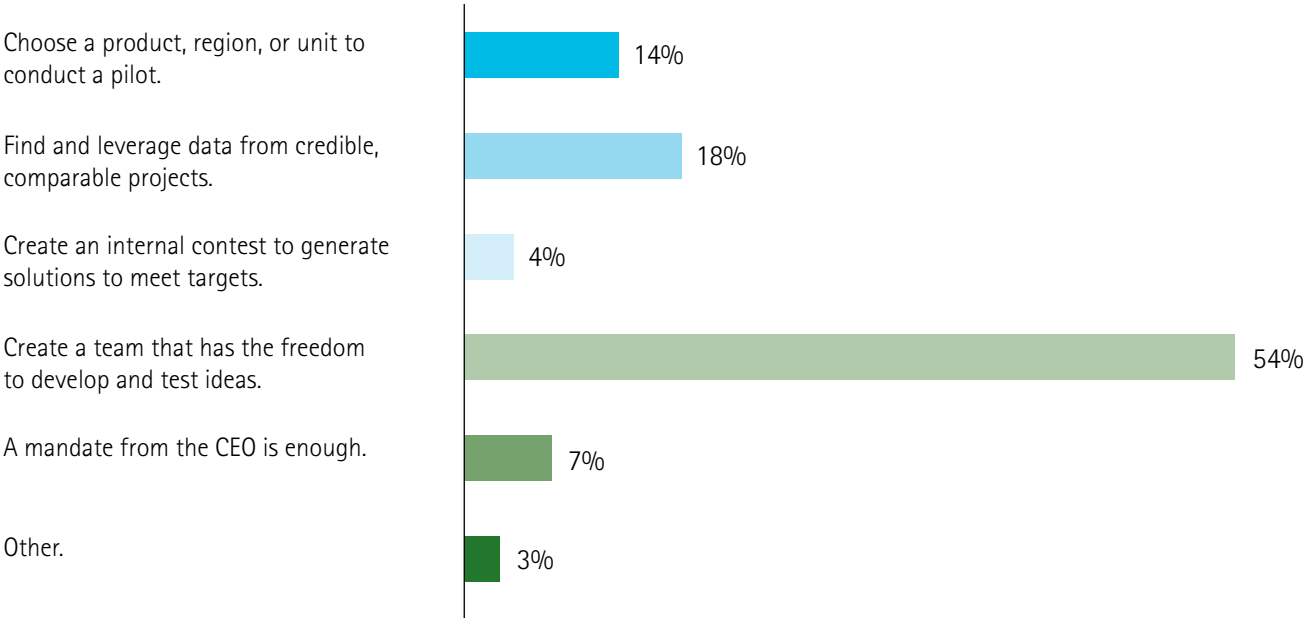




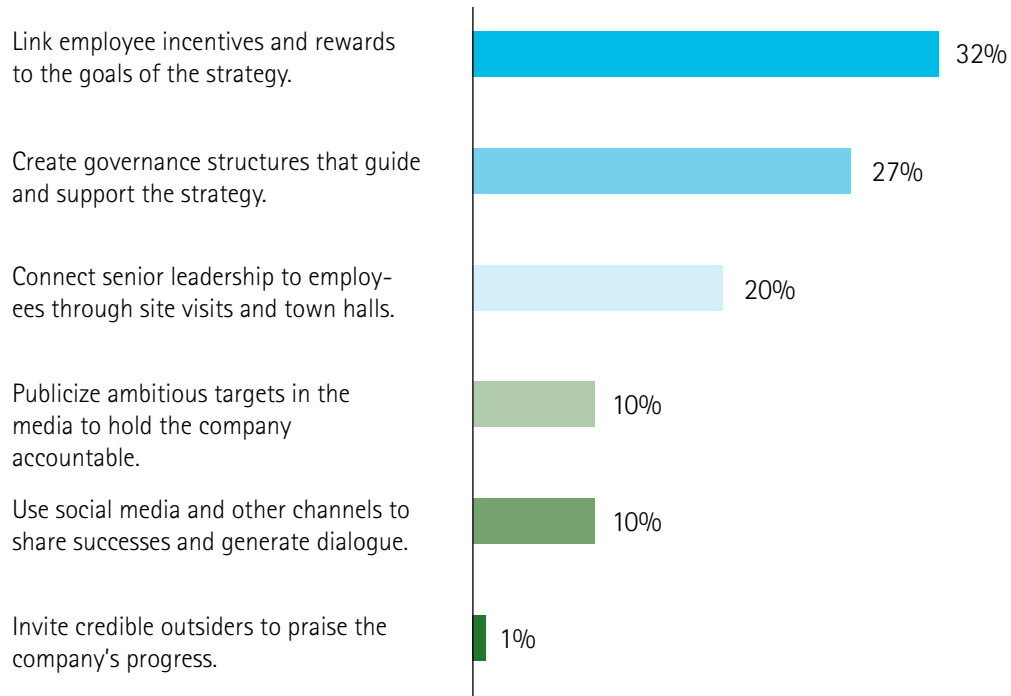
Would you evaluate Sustainable Value Creation opportunities using the same criteria as for traditional opportunities?



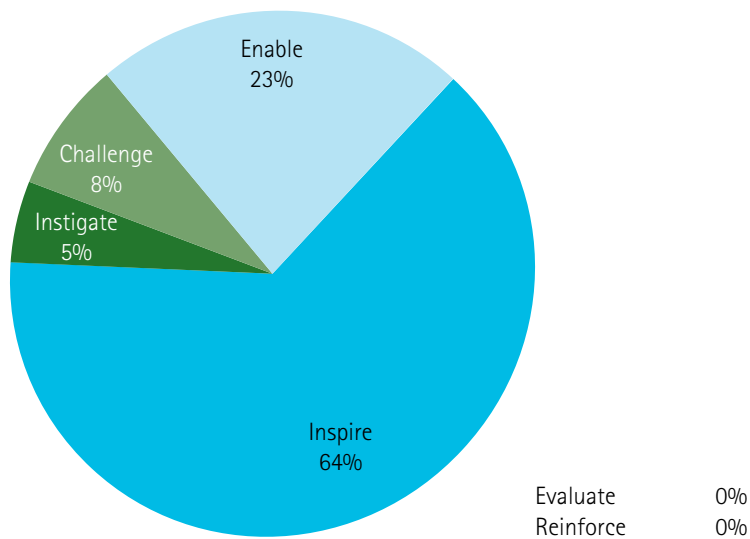
Which strategy for creating momentum around Sustainable Value Creation is most effective?



Which approach to scaling a Sustainable Value Creation strategy across the company is most effective? (pick two)



What is the most important role of the CEO in leading the company to a Sustainable Value Creation strategy?



# Appendix 3: Suggested Reading

## Chapter 1



Title: *Shaping the Future: Solving Social Problems through Business Strategy*

Author: Committee Encouraging Corporate Philanthropy, based on research by McKinsey & Company

Released: June 2010

Synopsis: Based on dozens of interviews with corporate CEOs and thought leaders in the field of corporate social engagement and business strategy, this report identifies five game-changing trends that will affect the future of the global economy and four possible scenarios for 2020—the optimal being “Sustainable Value Creation” and the worst being the “Vicious Circle.” Both business and society are responsible for which scenario is ultimately realized; both have ownership over the future. This report outlines how corporations are shifting their roles to work in partnership with nonprofits and government for positive business and societal outcomes.



Title: *A New Era of Sustainability*

Authors: Accenture, United Nations Global Compact

Released: June 2010

Synopsis: Today’s CEOs are more committed than ever to achieving a “new era of sustainability” in which environmental, social, and corporate governance issues are embedded throughout operations, the supply chain, and subsidiaries. That era is closer than one might think, based on a global survey of more than 750 CEOs and in-depth interviews with fifty of the world’s foremost CEOs in a range of industries and geographies. This study—commissioned by the United Nations Global Compact only once every three years—is helping to shape a new generation of sustainable business practices that can drive high performance.



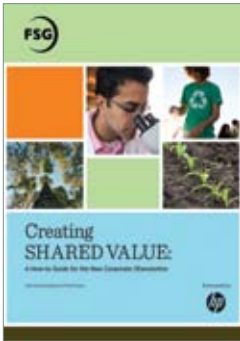
Title: “Creating Shared Value: How to Reinvent Capitalism and Unleash a Wave of Innovation and Growth,” *Harvard Business Review*

Authors: Michael E. Porter, Mark R. Kramer

Released: January 2011

Synopsis: The concept of shared value—which focuses on the connections between societal and economic progress—has the power to unleash the next wave of global growth. But our understanding of the potential of shared value is just beginning. There are three key ways that companies can create shared value opportunities: by reconceiving products and markets, by redefining productivity in the value chain, and by enabling local cluster development. Every firm should look at the decisions and opportunities through the lens of shared value. This will lead to new approaches that generate greater innovation and growth for companies—and also greater benefits to society.

## Chapter 2



Title: *Creating Shared Value: A How-To Guide for the New Corporate (R)evolution*

Authors: Valerie Bockstette, Mike Stamp

Released: April 2011

Synopsis: Creating Shared Value (CSV) requires comprehensive and sustained efforts across a corporation. Drawing heavily on real-life examples, this report identifies ten key building blocks that together form a blueprint for translating CSV into action; it also explores how companies can get started on that process.



Title: *Converging Economy: Rethinking International Development in a Converging World*

Authors: Accenture

Released: April 2011

Synopsis: To eradicate global development challenges, public and private organizations around the world must move past the present solutions and structures and achieve a greater degree of what Accenture refers to as convergence: a constant, shared commitment with recognized benefits for all parties rather than short-term, one-off projects and programs. The question for leaders of businesses, nonprofits, and governments is how readily they can integrate this new approach into their efforts to solve entrenched developmental challenges.



Title: *Measuring the Value of Corporate Philanthropy: Social Impact, Business Benefits, and Investor Returns*

Authors: Dr. Terence Lim, Committee Encouraging Corporate Philanthropy

Released: February 2010

Synopsis: Corporate philanthropy is as vital as ever to business and society, but it faces steep pressure to demonstrate that it is also cost-effective and aligned with corporate needs. This research report aims to meet that need by presenting the corporate philanthropy community with an analysis of current measurement studies, models, and evidence drawn from business disciplines as well as from the social sector. Frameworks and examples are organized according to a hierarchy of three conversations: between grant recipients and their funder's Chief Giving Officer (CGO); between the CGO and CEO; and between the CEO and the investor community.



Title: *Vision 2050: The New Agenda for Business*

Author: World Business Council for Sustainable Development

Released: February 2010

Synopsis: This report lays out a pathway leading to a global population of some nine billion people living well and within the limited resources of the planet by 2050. This work results from the eighteen-month combined effort of CEOs and experts as well as dialogues with more than 200 companies and external stakeholders in some twenty countries. The report spells out the "must haves": what must happen over the coming decade to make a sustainable planetary society possible. Vision 2050, with its best-case scenario for sustainability, is a tool for thought leadership and a platform for beginning the dialogue that is essential to navigating the challenging years to come.



Title: "Q&A: Roundtable on Shared Value," *Stanford Social Innovation Review*

Authors: John Kania, Mark R. Kramer

Released: May 2011

Synopsis: Executives from ten major corporations gathered in New York City on December 8, 2010 to discuss the innovative ways by which they are putting societal issues at the core of their companies' strategy and operations. Some of the companies—such as Cisco Systems, Hewlett-Packard, and IBM—have been taking a shared value approach for some time. Other companies—such as Western Union, Alcoa, and InterContinental Hotels Group—are new to the approach. But all of the participants—which also included Goldman Sachs, Dow Chemical, Medtronic, and PG&E—are enthusiastic about the results and prospects for the future. This article captures highlights from the candid discussion led by Mark Kramer and John Kania.



Title: "Capitalism for the Long Term," *Harvard Business Review*

Authors: Dominic Barton, McKinsey & Company

Released: March 2011

Synopsis: Perhaps the biggest danger to capitalism is that short-term approaches to running and investing in companies still reign. Business leaders can take the initiative to reform the system. In particular, there are three steps they should consider: changing incentives to focus on the long term, infusing their organizations with the perspective that serving the interests of all major stakeholders is not at odds with the goal of maximizing corporate value, and bolstering boards' ability to govern like owners. These steps will not only make the capitalist system stronger and more trusted; they will also spur innovation and fuel sustainable economic growth.

the 1990s, the number of people in the UK who are employed in the public sector has increased from 10.5 million to 12.5 million, and the number of people in the public sector who are employed in health care has increased from 2.5 million to 3.5 million (Department of Health 2000).

There are a number of reasons for this increase. One of the main reasons is the increasing demand for health care services. The population of the UK is ageing, and there is a growing number of people with chronic conditions such as diabetes, heart disease, and cancer. This has led to an increase in the number of people who are hospitalized and the length of their stays. In addition, there has been a growing emphasis on preventive care and early diagnosis, which has also led to an increase in the number of people who are employed in health care.

Another reason for the increase in the number of people employed in health care is the increasing demand for health care services in the private sector. The private sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in health care in the private sector. This is particularly true of the health care services provided by the private sector, which are often more expensive than those provided by the public sector.

There are a number of challenges facing the health care system in the UK. One of the main challenges is the increasing demand for health care services, which is putting pressure on the resources of the health care system. In addition, there is a growing emphasis on preventive care and early diagnosis, which is also putting pressure on the resources of the health care system. Finally, there is a growing emphasis on patient safety, which is also putting pressure on the resources of the health care system.

There are a number of ways in which the health care system in the UK can be improved. One of the main ways is to increase the number of people who are employed in health care. This can be done by increasing the number of people who are employed in the public sector, and by increasing the number of people who are employed in the private sector. In addition, it is important to ensure that the health care system is well-funded, and that it has the resources it needs to provide the services that are demanded by the population.

Another way in which the health care system in the UK can be improved is to increase the emphasis on preventive care and early diagnosis. This can be done by increasing the number of people who are employed in health care, and by increasing the number of people who are employed in the private sector. In addition, it is important to ensure that the health care system is well-funded, and that it has the resources it needs to provide the services that are demanded by the population.

Finally, it is important to ensure that the health care system in the UK is well-regulated, and that it is subject to the same standards of care as other health care systems. This can be done by increasing the number of people who are employed in health care, and by increasing the number of people who are employed in the private sector. In addition, it is important to ensure that the health care system is well-funded, and that it has the resources it needs to provide the services that are demanded by the population.

In conclusion, the number of people employed in health care in the UK has increased significantly in the 1990s. This is due to a number of factors, including the increasing demand for health care services, the increasing demand for health care services in the private sector, and the increasing emphasis on preventive care and early diagnosis. There are a number of challenges facing the health care system in the UK, and there are a number of ways in which the health care system can be improved. It is important to ensure that the health care system is well-funded, and that it has the resources it needs to provide the services that are demanded by the population.

the 1990s, the number of people in the UK who are employed in the public sector has increased from 10.5 million to 12.5 million, and the number of people in the public sector who are employed in the health sector has increased from 2.5 million to 3.5 million (Department of Health 2000).

There are a number of reasons for this increase. One of the main reasons is the increasing demand for health services. The population of the UK is increasing, and the number of people who are aged 65 and over is increasing rapidly. This has led to an increase in the number of people who are in need of health services, and this has led to an increase in the number of people who are employed in the health sector.

Another reason for the increase is the increasing demand for health services in the private sector. The private sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the private sector. This has led to an increase in the number of people who are employed in the health sector.

A third reason for the increase is the increasing demand for health services in the voluntary sector. The voluntary sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the voluntary sector. This has led to an increase in the number of people who are employed in the health sector.

There are a number of challenges that the health sector faces in the future. One of the main challenges is the increasing demand for health services. The population of the UK is increasing, and the number of people who are aged 65 and over is increasing rapidly. This has led to an increase in the number of people who are in need of health services, and this has led to an increase in the number of people who are employed in the health sector.

Another challenge is the increasing demand for health services in the private sector. The private sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the private sector. This has led to an increase in the number of people who are employed in the health sector.

A third challenge is the increasing demand for health services in the voluntary sector. The voluntary sector has been growing rapidly in the UK, and this has led to an increase in the number of people who are employed in the voluntary sector. This has led to an increase in the number of people who are employed in the health sector.

There are a number of ways in which the health sector can meet these challenges. One of the main ways is to increase the number of people who are employed in the health sector. This can be done by increasing the number of people who are employed in the public sector, the private sector, and the voluntary sector.

Another way is to increase the efficiency of the health sector. This can be done by increasing the number of people who are employed in the health sector, and by increasing the number of people who are employed in the health sector.

A third way is to increase the quality of the health services. This can be done by increasing the number of people who are employed in the health sector, and by increasing the number of people who are employed in the health sector.



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