



KPMG GLOBAL SUSTAINABILITY SERVICES™

Sustainable Insight

Your quarterly insight into sustainability

Sustainable Development and Innovation
October 2007

Sustainable Development and Innovation: co-stimulating long-term competitive advantage?

Can companies reconcile the need for sustainable development with creating business success? Can both objectives be delivered at the same time and how do they interrelate? Societal and environment challenges not only present businesses with obligations, but also with opportunities for innovation. KPMG's most recent analysis of the synergies between sustainability and innovation success, carried out with innovation consulting firm Innovaro, shows a strong relationship between innovation leadership and a focus on sustainability issues.

It is noteworthy that a growing selection of companies has started to respond strategically to a wide range of societal and environmental challenges.

In 2006, companies such as Samsung, Novartis, Unilever, P&G, M&S, Intel, BT, TNT and Adidas all came top in their individual sectors in the Dow Jones Sustainability Index (DJSI). This index offers the most widely recognised analysis of sustainability performance. These companies should be applauded for their achievements, but many people still question the long-term business benefits of a sustainable approach, asking how this attention to sustainability translates into business growth. We compared KPMG's International Survey of Corporate Responsibility Reporting 2005 and Innovaro's Innovation Leaders analysis in order to provide some answers.

The Innovation Leaders 2007 analysis showed that over half of the companies identified as being in the world's top organisations for delivering organic growth also appear in the Dow Jones Sustainability Index (see table 1). Furthermore, the KPMG survey that analysed sustainability trends in 1,600 of the world's largest companies, showed that 53% of the companies'

Corporate Social Responsibility / Sustainability behaviour is motivated by innovation. These findings suggest that – despite some cynicism – when real performance is assessed, organisations that focus on improving sustainability can also deliver significant profitable innovation-driven growth.

The debate on the role of business in society is increasing. Over the past fifteen years, the global economy has witnessed unprecedented growth and rising profitability, often corresponding with rising environmental impact. An increasing number of progressive companies have recognised that their best interests are served by acting responsibly within this increasingly sensitive framework. This reduces business risk, secures the long term and safeguards their license to operate.

It is noteworthy that a growing selection of companies has started to respond strategically to a wide range of societal and environmental challenges. One approach may be to develop technologies to help to



solve or mitigate major environmental problems; another approach may be to nurture new markets in developing countries in an ethical manner. One common denominator across leading firms in this area is the ability to create and deliver new innovation by understanding and addressing societal challenges – offering solutions that, in the long run, translate into competitive advantage and the creation of economic value.

The KPMG / Innovaro analysis shows an existing relationship between innovation and sustainability. Sustainability can be considered a driver, rather than a barrier, to creating growth and value for organisations and their stakeholders. A closer look at some of the companies that have demonstrated leadership in innovation and sustainability shows, in many cases, that sustainability can drive innovation; stimulate alternative ways to develop products, processes and services, and also create new opportunities ahead of competitors.

Toyota **‘Maximise and Zeronise’**

Toyota has developed a vision for the 21st century by introducing a vehicle that complies with sustainability principles, addressing environmental and natural resource issues. The automotive giant concluded that current technologies would never have the capability of achieving an ambitious 100% fuel efficiency improvement target. Toyota, instead, used a number of existing development projects and a variety of hybrid solutions to radically innovate the engine concept. This strategic approach led to a number of new vehicles within the Lexus and Toyota brand including the globally recognised Prius, which has cumulative sales reaching over 1,000,000 units. Accompanied by parallel developments, and despite the short term economics of the move, Toyota has successfully positioned itself ahead of many of its competitors by creating innovation-driven business growth inspired by sustainability.

GE **‘Ecomagination’**

GE’s ‘ecomagination’ is another example of a company that has made a strategic decision to provide innovative products and solutions to address customer concerns with sustainability issues. All clean technology products and services in the ‘ecomagination’ portfolio – relating to clean energy, water purification or home appliances – are measured considering both financial contribution to the company’s performance and environmental benefit. Each ‘ecomagination’ product must comply with specific criteria that address environmental and social impact. The ‘ecomagination’ portfolio already contributes \$10bn to GE’s revenues – a figure which the company aims to double to \$20bn by 2010 with an additional \$700m investment in associated R&D activity. At GE, this strong commitment to sustainability at a strategic level, linked to clear financial and environmental targets, is visibly driving innovation and helping the company leap-frog many of its peers in respective arenas.



“What I thought was going to be a defensive strategy is turning out to be precisely the opposite”

Lee Scott, Wal-Mart CEO

Wal-Mart Turning green

In August 2006, the CEO of Wal-Mart, Lee Scott, commented on the company's new environmental sustainability strategy: “What I thought was going to be a defensive strategy is turning out to be precisely the opposite”. Wal-Mart is the biggest retailer in the world and has often been criticised by the media for poor business practice. It has drawn up ambitious sustainability targets which require compliance from suppliers. Suppliers that anticipated this trend and proactively developed environmentally-sound products are now able to leverage their competitive advantage. This approach is also visible in other companies such as Royal Philips Electronics' 'Green Flagships' and Unilever's 'smart packaging' solutions – approaches that Wal-Mart is emulating.

While these examples highlight a deliberate focus on innovating within the sustainability agenda, the question remains as to how organisations can consciously unlock the often hidden potential of sustainability. Any approach must be part of an organisation's supporting culture through inclusive thinking, as well as a part of the innovation process. This can pose a challenge, particularly for companies that lack familiarity with the implications and benefits of moving towards insight-driven innovation – whether this innovation is focused on societal changes, technological development, market dynamics or shifts in the political landscape.

Our analysis indicates five essential elements to successfully embed sustainability in an organisation's innovation process.



In conclusion

Five key elements to integrate sustainability into the innovation process:

1. Organisations have to make a mental leap towards recognising sustainability as a driver rather than a barrier for innovation. This will enable them to see opportunities and growth platforms where others fear problems and increased costs;
2. Companies need to acknowledge that sustainability is broader than a company's environmental footprint, and includes social issues such as providing good working conditions for employees or respecting the local communities in which it operates. Sustainability also relates to how current and future products and services will potentially impact on both customer and consumer requirements – areas which offer opportunities for business;
3. Any insight-driven innovation process must be supported by a capability to draw in and learn from external views, including those that come from the company's edge of their sphere of focus. These must then be translated into actions for their current and future business operations, and result in new roles for the company across the value chain;
4. Measurable targets are needed to ensure that sustainability is not treated as an add-on but, instead, is fundamental to creating value in financial as well as environmental and societal terms;
5. Any change towards more sustainable innovation needs to be inspired by clear leadership, demonstrated by public commitment and driven by internal support for those involved in activities and programmes that will fuel future growth.

Several companies have shown that linking sustainability with innovation is possible. There is also an increasing number of organisations following the leaders in order to include insight in sustainability at a strategic level that can be used as a constant driver in the innovation process. Where the ingredients for successful sustainable innovation are clear, the greatest challenge for organisations is to change the mindset and perception around corporate responsibility and the innovation process, to ensure that it collectively drives sustainable growth. To quote Charles Darwin: "It is not the strongest or most intelligent that survive, but the ones that are most responsive to change".

Sector	Innovation Leader	Ones to watch	
Aerospace	Boeing	Rolls-Royce	Lockheed Martin
Airlines	Virgin Atlantic	Qatar Airways	Net-Jets
Automotive	Toyota	BMW	Honda
Banking	RBS	ING	Zopa
Chemicals	Du Pont	BASF	Rohm & Haas
Consumer Electronics	Samsung	LG	Sony
Consumer Goods	LEGO	Haier	Harley Davidson
Energy	BP	Shell	GE Energy
Fashion Retail	H&M	Zara	Hugo Boss
FMCG	Reckitt Benckiser	Proctor & Gamble	Henkel
Food and Drink	PepsiCo	Danone	Nestle
General Retail	Tesco	Wal-Mart	IKEA
Hotels and Leisure	Starwood	Las Vegas Casinos	Disney
IT Hardware	Apple	Logitech	Acer
IT Services	Infosys	IBM	Accenture
Insurance	Aviva	Munich Re	Zurich Financial
Logistics	UPS	Fed-Ex	TNT
Media / Entertainment	Google	eBay	News Corp
Medical Devices	Medtronic	Smith & Nephew	Boston Scientific
Office Equipment	Canon	Fuji Xerox	Brother
Pharmaceuticals	Novartis	Genentech	Eli Lilly
Software	Microsoft	Symantec	Adobe
Sports Goods	Adidas	Nike	Puma
Telecom Equipment	Nokia	Qualcomm	Motorola
Telecom Operators	NTT DoCoMo	France Telecom	Korea Telecom

Table 1: Innovation Leaders 2007: the grey highlights indicate companies that are leaders in both Innovation Leaders 2007 as well as the 2006 DJSI. 'Ones to watch' relates to those companies that are perceived as up and coming.

About KPMG Global Sustainability Services™

KPMG Global Sustainability Services™ (GSS) provides Corporate Responsibility (CR) related services to help businesses and organizations better understand, improve and report on their environmental, social and ethical performance.

KPMG GSS™ practices have over 300 professional staff working in 35+ countries worldwide supported by the wider KPMG network with over 100,000 professionals in 150 countries. Our rapid growth in the last two years reflects the growing demand for services in this field.

We employ professionals with expertise in the services we deliver, expertise that is maintained through participation in international initiatives in sustainability and through developing solutions with clients.

We have been influential in driving forward the sustainability agenda through our tri-annual International Survey on Corporate Responsibility Reporting as well as active involvement with leading sustainability organizations such as the World Business Council for Sustainable Development (WBCSD), Global Reporting Initiative (GRI), and standard setting bodies (AccountAbility).

We work within KPMG multi-disciplinary teams with backgrounds in business risk, compliance, finance, tax, audit and certification.

We work closely with KPMG's global sector-specific centers of excellence and have extensive in-house knowledge and experience in various industries.

Contact

Feedback

[Barend van Bergen](#)

Director KPMG Sustainability B.V.
Member of KPMG Global Sustainability Services™

Tel. +31 (0)20 656 4501

vanbergen.barend@kpmg.nl

More information

For more information on the topic sustainability: www.kpmg.nl/sustainability

For more information on KPMG's International Survey of Corporate Responsibility: www.kpmg.com/Industries/IM/Other/CRSurvey.htm

For more information on Innovaro's Innovation Leader analysis: www.innovationleaders.org

Contact us

KPMG

Burgemeester Rijnderslaan 10-20
1185 MC Amstelveen
The Netherlands

P.O. Box 74555
1070 DC Amsterdam
The Netherlands

Tel. +31 (0)20 656 7890
Fax +31 (0)20 656 7700

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2007 KPMG Sustainability B.V., a Dutch limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the Netherlands.
524_1007