business for Impact

ON THE MINDS OF CEOS

Sustainable Business Transformation:

Behavioural Insights from Conversations with 40 Leading CEOs and Transformation Experts

CHANGEMAKER COMPANIES

ASHOKA

ylios Executive Advisory

Produced by :

ap² Combining the power of Anthropology & Psychology

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FOREWORD

Empathy towards CEOs does not mean complacency. Uncovering Senior leaders' intrinsic drivers & barriers to sustainable business transformation is the only way forward.

By Angelos Souriadakis
Founding Partner Ylios
& Changemaker Companies

Global reports show that sustainability has become CEOs' top priority[1], but most leaders say their business is unprepared to incorporate sustainability into their core strategy[2].

Academic research has demonstrated that **making the business case for sustainable transformation is not enough** to convince leaders to invest in structural transformation[3]. Therefore, we set out to better understand the psychology of CEOs when it comes to shaping their business for impact.

Ashoka, Changemaker Companies, Ylios, and key ecosystem partners have launched the **Business for Impact observatory** to monitor the evolution of CEOs' mindsets regarding sustainable business transformation and to track progress of regulations and policies in OECD countries on a 12-18 month basis. We need this evidence to nurture constructive debates among C-suite circles and policy makers.

How to get on the minds of CEOs when their every word is scrutinized?

We partnered with independent anthropology & behavioural psychology experts - ap² - to get a deep, accurate, and nuanced understanding of Senior executives' mental frames vs. sustainable business transformation.

40 leading CEOs & international experts shared blunt insights about a very polarizing topic. We were able to hear truth rarely told in the media. We want to thank all interviewees for their trust & honesty.

Not every CEO is a legacy builder.

50 hours of open conversations with CEOs have allowed ap² to build **6 behavioural profiles of leaders, responding to very different levers and incentives.**

The quadrant and CEO personality matrix should help internal & external sustainability experts to build bridges with CEOs based on their drivers. Empathy is not only about hearing the other's point of view. It's respecting it and building a common ground despite conflicting interests.

Barriers outweigh drivers

This report showcases that systemic barriers to sustainable transformation outweigh intrinsic drivers, clearly explaining the CEO action-intention gap.

Despite the lack of consumer traction and globalized regulation, environmental and societal challenges call upon CEOs to engage and lead an integrated sustainable transformation to protect their operations.

The goal of the Business for Impact observatory is not to provide easy answers but to put the right questions into light. We strongly believe we need to create safe and constructive spaces for Senior business leaders to share their real challenges and blind spots with peers and stakeholders.

Sources
1. *"What Matters Most? Five Priorities for CEOs in the Next Normal"*, McKinsey, Sept. 21
2. *"Climate Leadership in the Eleventh Hour"*, The 2021 United Nations Global Compact–Accenture CEO Study on Sustainability, Nov. 21
3. S. Hafenbraedl, D. Waeger, *"Most Executives Believe in the Business Case for CSR. So Why Don't They Invest More in It?"*, Harvard Business Review, Sept. 2018

READING THIS REPORT

- Each section begins with an overview model (visual representation of the key forces at play) and section summary, and then dives into detail for each component with accompanying quotes from participants.
- In order to maintain the privacy of participants, quotes are attributed only to participant type (e.g. Expert or CEO), and country. In addition, personally identifying information has been removed from quotes.

ON THE MINDS OF CEOS

Sustainable Business Transformation:

Behavioural insights from conversations with 40 leading CEOs and transformation experts

This report details insights from qualitative interviews with leading CEOs and transformation experts to understand the drivers and barriers to sustainable business transformation - defined as fundamentally restructuring operations and/or business models in order to deliver positive societal and environmental impact (in addition to economic value).

Interviews were conducted across France, Germany and the UK, and a range of business sectors.

In recent decades, many business leaders have attempted to deliver positive societal and environmental impact via sporadic 'CSR' initiatives peripheral to core business. This research indicates **there is now a clear intent of CEOs to make fundamental changes to their businesses** (to their operations and/or business model) in order to achieve environmental and societal impact.

However, this **intention is currently not being matched with equivalent action** - many business initiatives remain peripheral or small-scale, representing a **significant action-intention gap**.

Some experts and business leaders believe there is greater transformation on the horizon, as **purpose-driven businesses fully align intention and action -** significantly altering operations and business models.

For most CEOs, change is not being directly driven by a sense of moral responsibility to stop climate change (though climate change is a largely accepted fact). Rather, CEOs are focused on pragmatic problem solving: responding directly to external influences on their business.

Attraction, engagement, and retention of talent are mentioned as key drivers of business transformation by most business leaders and experts. With consumer behaviour infrequently being raised as a driver of change, the findings suggest **individuals presently hold more influence on businesses as employees rather than as consumers**.

New regulation (e.g. EU sustainability taxonomy), **critical threats to business operations** (e.g. supply chains) and **competition** (particularly startups) are all major drivers of change.

Many are recognizing a **growing push for ESG coming from the finance world** (private equity, banks, and investors). There is perceived risk in non-conforming investment policies and concerns over access to future funds.

Covid-19 is frequently identified as a disruptor of business as usual, and an accelerator of change: exposing business fragilities, and need for innovation and resilience, while triggering societal re-appraisal of values.

> **"We've definitely passed the tipping point… people want to really rethink the way the business operates. Everyone recognizes this is happening.**
> **"We're right at the foothills in terms of what we could be doing...There is a lot further to go."**
>
> **- CEO, France**

> **"Consumers have been turned on to convenience and they are not giving that up. But those same consumers are employees and they are choosing to exercise their choice - because they feel they will have more influence in the workplace than they will as a consumer."**
>
> **- CEO, UK**

> **"The risk is we cannot produce anymore in 40, 50 or 60 years, so it's not only about getting rich, it's about survival."**
>
> **- CEO, Germany**

"If I've got to change my entire products or services - which my company has spent decades building and refining, as well as the business models and structures we operate in, then structural change is really difficult."

- Expert

"The way the media looks at us now, they see us as criminal. There is a real risk in putting your neck out."

- CFO, France

"I believe we need metrics - without measurement there is no progress... But we need more time and effort for the measures to be consistent, to be useful... Some metrics can easily be bought. I don't trust a lot of the existing ones."

- CEO, France

A number of barriers are creating friction for sustainable business transformation - resulting in an action-intention gap:

The primary barrier for most businesses relates to the process of business transformation requiring resolution of 'Wicked Problems' faced by CEOs (complex, systemic challenges which are incredibly difficult to solve) such as transforming systems and supply chains, navigating technical complexity, regulation, guiding organizational culture change, managing opportunity costs, while meeting shareholder expectations.

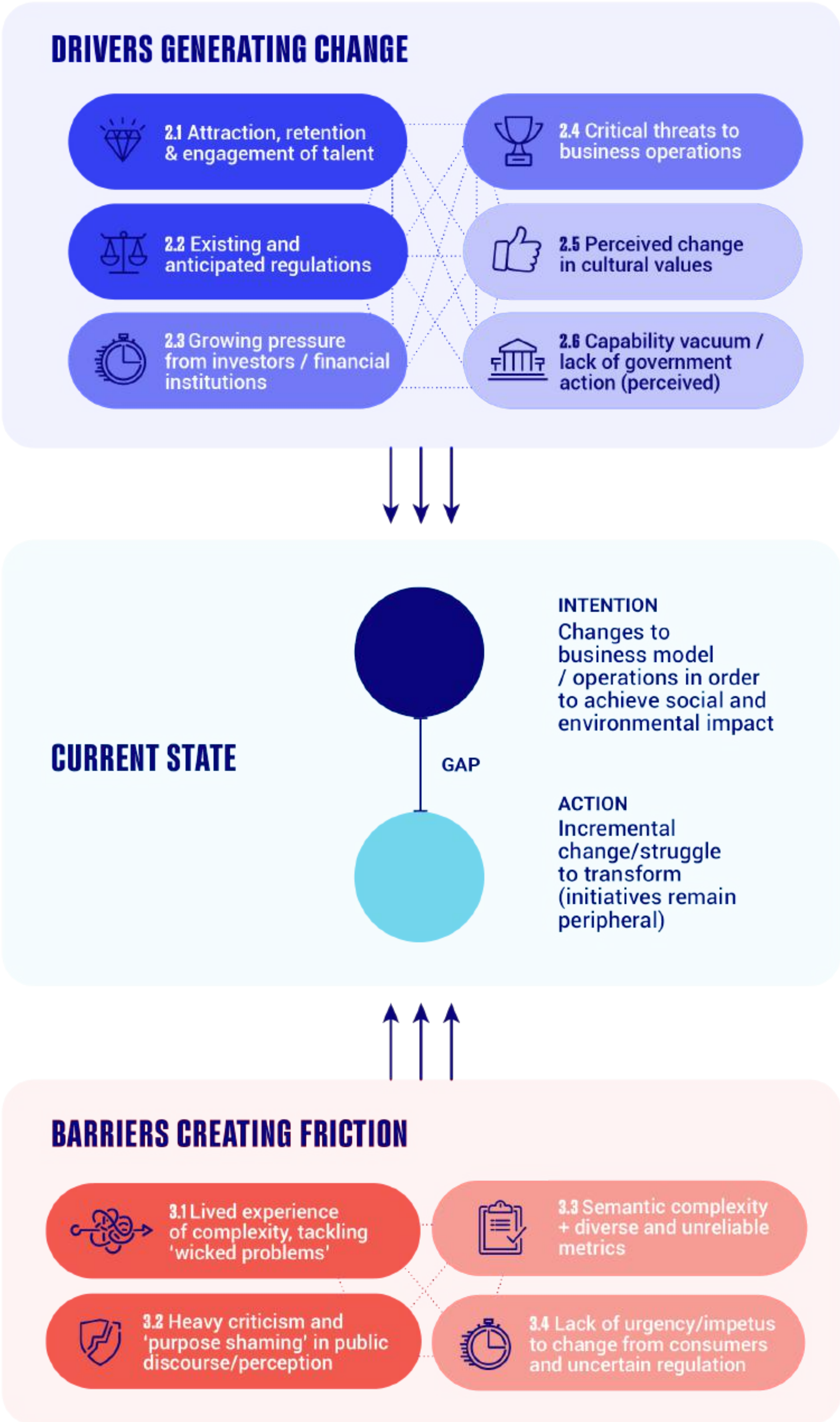
Many business leaders feel media and public discourse are simplifying the issues, creating a **simple dichotomy between 'good' businesses and 'bad' businesses** and framing the transformation through a moral lens. Business leaders are highly sensitive to the prospect of being shamed ('Purpose Shaming') if they fail to live up to public expectations. This is leading to inaction and avoidance.

Finally, the **diversity in topics, language** and **metrics** in the sustainability domain is leading to inconsistent comprehension as well as inaccurate appraisal of progress - CEOs are struggling to navigate and prioritize strategy and initiatives within these fragmented categories. In addition, there is a perception that ESG scores can be bought, and thus lack credibility. As a result, many are seeking an authoritative regulatory body for a source of 'truth'.

This research identified 4 different company behavioral profiles, based on two key differentiators: **public commitment** to societal and environmental impact, and **degree of change** to a business' operations/ business model:

- **Reduce Peripheral Harm** (*Minimal change to operations/ business model, low public commitment*): See CSR as peripheral to core business, and focus on reducing negative externalities
- **More Talk Than Action** (*Minimal change to operations/ business model, high public commitment*): Initiatives and impact are still small and peripheral despite public commitment
- **Public First Movers** (*Significant change to operations/ business model, high public commitment*): Proactively investing in and signalling strategy and initiatives which are transforming core business
- **Quiet Strategy** (*Significant change to operations/ business model, low public commitment*): See sustainable business transformation as a strategic advantage and are investing in strategy and initiatives but not overtly communicating

The model below is an overview of the relationship between drivers and barriers explored in the report. Whilst drivers are collectively generating intention toward sustainable business transformation, barriers are creating friction resulting in most change being incremental.



PROJECT
APPROACH & METHODOLOGY

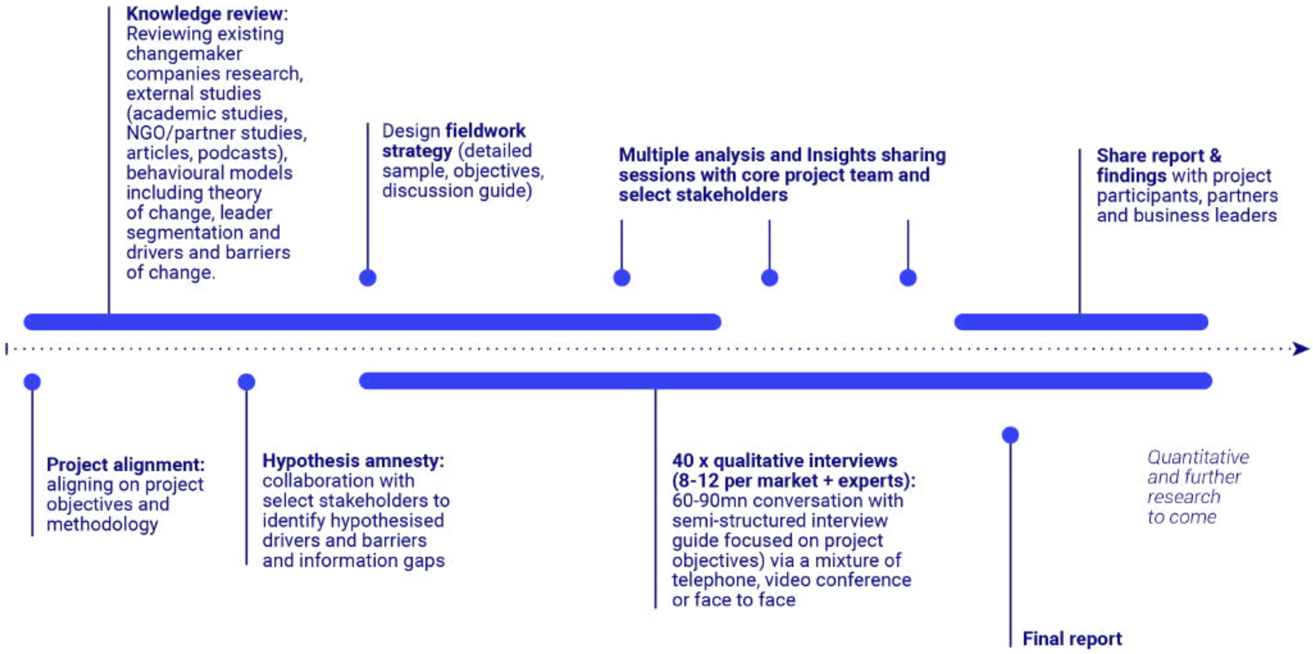
METHODOLOGY

PROJECT OBJECTIVES

Qualitative research was designed and conducted to answer the following objectives:

1. To what degree do senior business leaders **believe in sustainable business transformation and why?**
2. How does this **impact their behaviors and decisions** within the business?
3. What are the psychological and organizational barriers and levers to committing to sustainable business transformation?
4. How can we segment our audience into **behavioral profiles** which we can identify, track and respond to?
5. How do businesses with different approaches/perspectives/maturity levels **perceive and interact with one another**?
6. What are the fundamental **mental frames** that business leaders use to make sense of environmental and societal 'impact'?
7. What (if any) tensions exist between the **company and business leaders as individuals**?

APPROACH



RECRUITMENT & INTERVIEWS

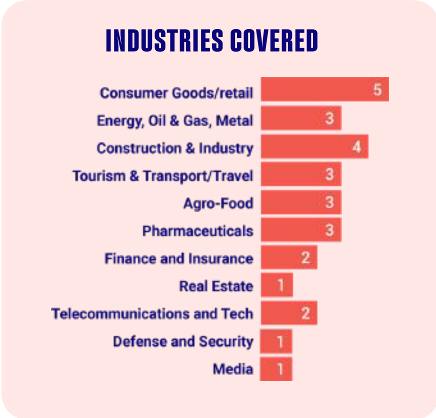
A mixed strategy was utilized:

- The majority of participants were identified through Business For Impact's network (ensuring there was a range of industries and levels of 'maturity' in relation to sustainable business transformation)
- Some participants were recruited through referrals and 'snowballing' from earlier participants (participants referred contacts who met the sample criteria)
- 60-90 minute interviews were conducted via telephone, video conference, or face to face with Kris White or Adelaide Vinay
- To thank participants for their time, a €100 donation was made to a charity of their choice

RESEARCH SAMPLE

The majority of companies selected had 1,000+ employees and a turnover of over €500 million.

Several smaller businesses who did not meet this criteria were included on the basis of having national or international remit. None of the companies interviewed were state-owned.



40 PARTICIPANTS

12 EXPERTS
France, Germany, UK and international viewpoints

INDUSTRY GROUPS & MEDIA
Including MEDEF, ADS Group (Aerospace Defence & Security), BFM TV

SUSTAINABILITY / CSR COMMUNITIES & CONSULTANCIES
Including C3D, Institut du Capitalisme Responsable, Craigberoch, Seek Strategy

ACADEMICS AND NOT-FOR-PROFITS
Gillian Secrett – University of Cambridge Institute for Sustainability Leadership
Olivier Sibony – HEC
Charles Wookey – A Blueprint for A Better Business

28 BUSINESS LEADERS
CEOs and CFOs

FRANCE: 12
Including Vinci, Kiabi, Nexity, Rémy Cointreau, Groupe TDF, Daher, CIFE, IDKids

GERMANY: 9
Including Boehringer Ingelheim, Metzler Bank, Hubert Burda Media, Sartorius, Synlab, Zech Group, Dyckerhoff

UK: 7
Including The Coca-Cola Company, Collinson Group, Lockheed Martin UK, The Inkey List, AngloAmerican

N.B. The names of several contributors have been withheld on request.

SCOPE AND LIMITATIONS

THIS STUDY IS

- A qualitative method - a deep dive into the perspectives, behaviors, and psychology of business leaders
- Using a systems thinking approach to show key trends, forces, and tensions (and the way they impact one another) - with visual models designed to assist comprehension
- Drawing from existing knowledge and behavioral psychology to explain insights identified in the field

THIS STUDY IS NOT

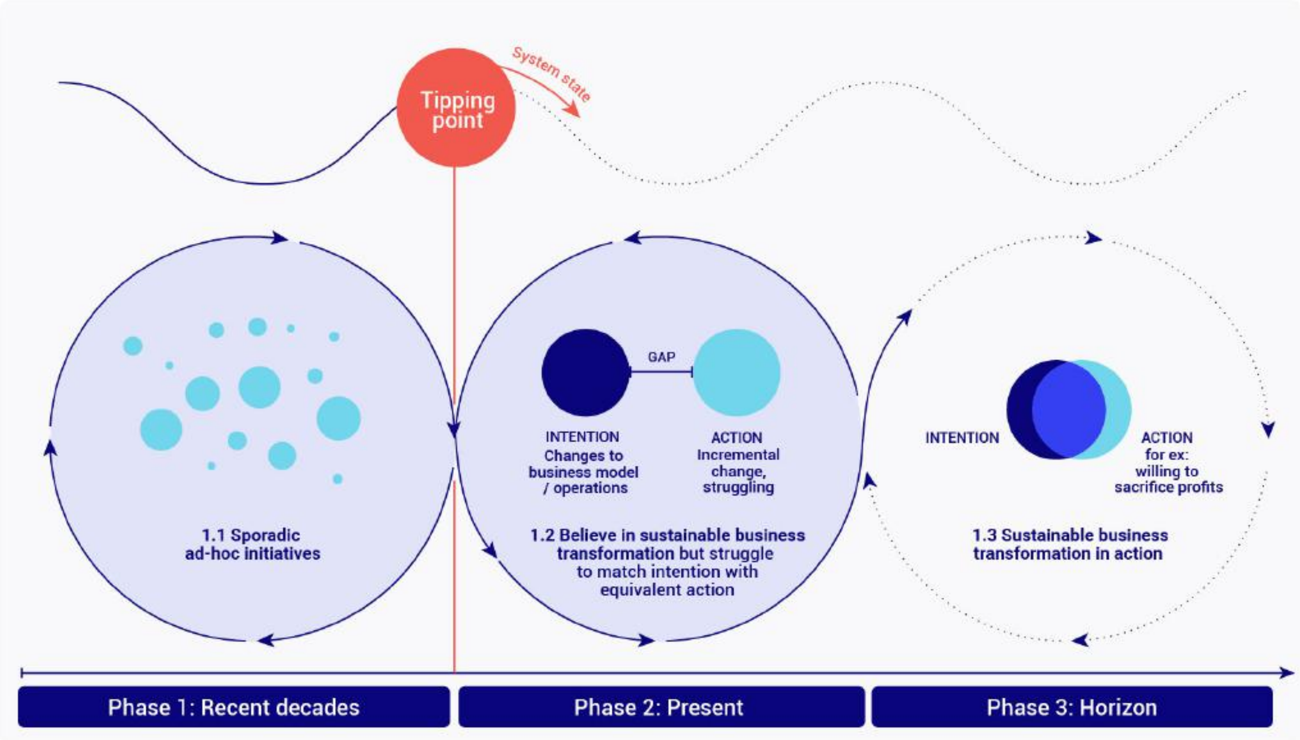
- Statistically representative
- A moral position or scientific appraisal of what business leaders should or should not be doing in relation to environmental and social issues
- Exhaustive - this research and resulting report is a starting point aiming to explore the behavior and attitudes of CEOs on this topic

1

CURRENT CONTEXT
TIPPING POINT & ACTION -INTENTION GAP

CURRENT CONTEXT

A TIPPING POINT IN INTENTION - BUT NOT IN ACTION



SUMMARY

Where do business leaders stand in regards to sustainable business transformation?

The research indicates three phases of business orientation towards changes to core business operations and business models in order to deliver positive societal and environmental impact.

In recent decades (phase 1), business leaders implemented sporadic CSR initiatives with minimal change to core business.

A tipping point of intention now appears to have been reached, with a majority of business leaders **intending to make core changes to business models and operations,** to reduce harm and create positive societal and environmental impact.

Whilst there is now clear intent towards sustainable business transformation, business are **struggling to match this intent with equivalent action.**

Many business initiatives remain peripheral to core business or small in scale (phase 2 - see 'action-intention gap' page 15).

Some business leaders and business transformation experts see a yet to be defined **future phase (phase 3) on the horizon**, where **businesses organise around purpose and align intent with action**.

In this phase, businesses are willing to make difficult trade-offs including sacrifice profit for impact.

1.1 PHASE 1 : SPORADIC AD HOC INITIATIVES

In recent decades, many business leaders have delivered positive environmental and societal impact via sporadic 'CSR' initiatives peripheral to their core business.

"That was business as usual, providing employment and donations. Impact is not aligned to strategy, it's still about profits." **- Expert**

"We had CSR because something was needed to stick in the back of a corporate report." - **Expert**

In contrast, some business leaders highlight the positive impact inherent in some family businesses over the past few centuries.

"Over 150 years ago the business provided property to families and built a school, we had healthcare for employees. The business provided this, not the state." **- CEO, Germany**

"For hundreds of years now, the group has focused on transmission of the purpose to the next generation. We're sustainable because the time horizon is intergenerational." **- CEO, France**

1.2 PHASE 2 : BELIEVE IN SUSTAINABLE BUSINESS TRANSFORMATION BUT STRUGGLING TO MATCH WITH EQUIVALENT ACTION

The majority of CEOs believe they need to make changes to their business model and operations in order to reduce harm and have positive environmental and societal impact.

"There has been a real turning point. Most business leaders - myself included - have moved beyond minimum requirement... Sustainability means having a positive - or at the very least neutral - impact on the planet and society, as a result of all of our activities." **- CEO, UK**

Reflecting an action-intention gap, most are struggling to translate this into equivalent action. Most initiatives largely remain peripheral to core business or small scale (for example : raising money for charity, staff volunteer days, brand purpose or manifestos with lack of formal roadmap or specific targets etc. - see full list of indicators at appendix page 44)

"Our initiatives are still too small scale... We need to go bigger." **- CEO, France**

"We're right at the foothills in terms of what we could be doing... There is a lot further to go." **- CEO, UK**

Some experts believe this gap is a result of the unrealistic allure of 'win-win strategies' (the promise that impact and profit can coexist without trade-offs). However, achieving this is rare and unrealistic for many businesses - especially at scale.

"They say 'just rethink your business model and get creative about it, you can have a company that is profitable AND has impact'. We need to stop saying it's easy. Businesses that successfully do this are incredibly niche. We always hear of the same examples." - **Expert**

INSIGHTS FROM BEHAVIOURAL PSYCHOLOGY

Intention-action gap:
Refers to the difference between an individual's behaviour (action) and their attitudes towards that behaviour (intention). Research demonstrates the presence of this intention gap occurs at an individual and organisational level.

Sheeran, Paschal & Webb, Thomas. (2016). The Intention–Behavior Gap. Social and Personality Psychology Compass. 10. 503-518. 10.1111/spc3.12265.

Sabrina Engert, Rupert J. Baumgartner, Corporate sustainability strategy – bridging the gap between formulation and implementation, Journal of Cleaner Production, Volume 113, 2016, Pages 822-834, ISSN 0959-6526, https://doi.org/10.1016/j.jclepro.2015.11.094.

1.3 HORIZON : SUSTAINABLE BUSINESS TRANSFORMATION IN ACTION

Some business leaders and business transformation experts see a yet to be defined future phase (phase 3) on the horizon, where businesses organise around purpose and align intent with action.

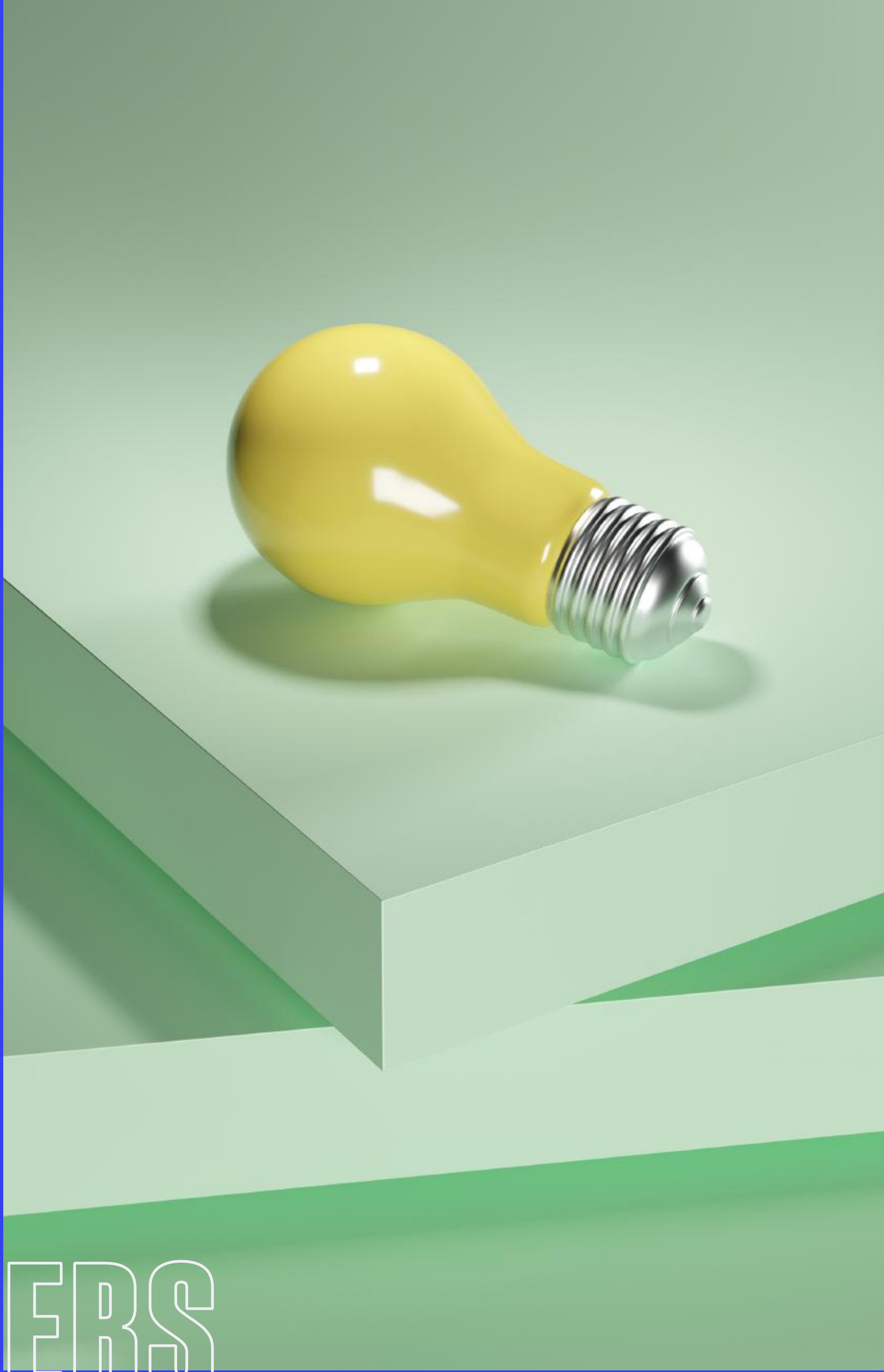
"We haven't got any absolutely perfect case studies of companies that are getting to this stage... The most promising avenue is what some companies do when they call themselves 'entreprise a mission' and purpose based. They define their mission first." **- Expert**

"Engage the best of what we are good at and channel it into something which is not a product, it's what we can do for social impact first. Then install it in the core engine of the company."
- CEO, Germany

In this phase, new values, tools and models of thinking will be required, and businesses are increasingly willing to make difficult trade-offs including sacrificing profit for impact, and cooperating with industry competitors.

"We haven't given them a toolkit to deal with this, we don't yet have the frameworks or concepts."
- Expert

"Businesses are used to thinking about competition, not cooperation, the next phase will require 'coopetition'." **- Expert**



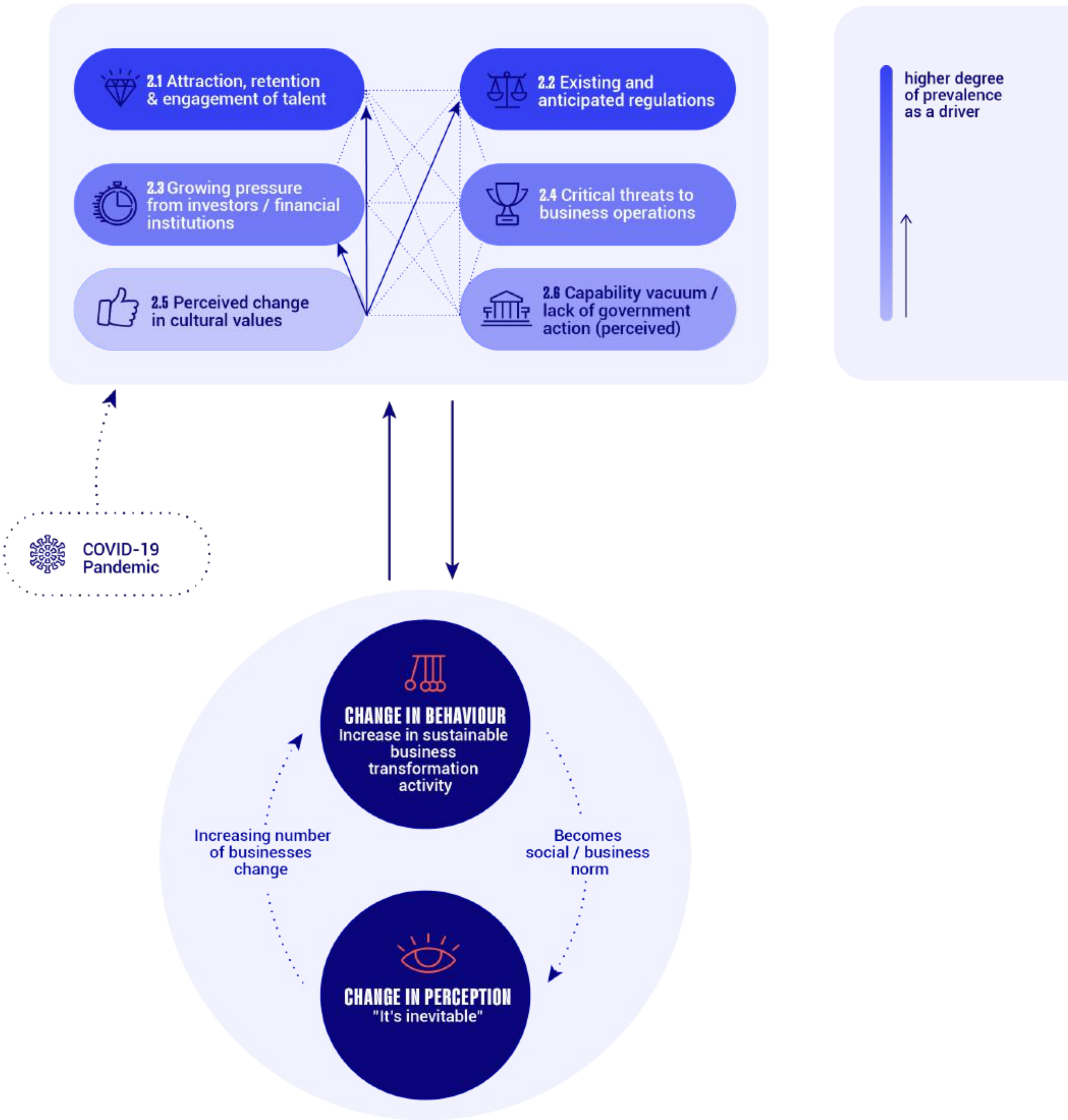
2

DRIVERS

A 'SYSTEM OF CHANGE' MODEL

DRIVERS
A 'SYSTEM OF CHANGE' MODEL

The model below outlines drivers of change operating as a complex system. The drivers influence one another, with cultural values in particular underpinning change to investor, employee and regulatory responses.



What has driven the tipping point in intention toward sustainable business transformation?

This section outlines the **six drivers of change** uncovered in the research, in order of prevalence and perceived strength. These drivers do not each act in isolation, instead, they operate as a **complex system of change**.

Contextually, Covid-19 is frequently identified as disruptor of Business as Usual, and accelerator of change: exposing business fragilities, and need for innovation and resilience, while triggering societal re-appraisal of values.

2.1 Attraction, engagement and retention of talent

Attraction, engagement and retention of talent are raised as a key driver of business transformation by most business leaders and experts. With consumer behaviour infrequently being raised as a driver of change (see 3.4 page 32), the findings suggest **individuals presently hold more influence on businesses as employees than as consumers**.

2.2 Existing and anticipated regulations

Regulation is top of mind for most business leaders - though this is slightly stronger in France and Germany (current driver) than in the UK (foreseen as a future driver).

2.3 Growing pressure from investors/ financial institutions

Many business leaders also recognise a **growing push for 'ESG' coming from the finance world** (private equity, banks, and investors) and are perceiving risk in non-conforming to investment policies and **restricted access to future funds**.

2.4 Critical threats to business operations

Many business leaders are also being driven by pressure from critical threats: **threats to supply chains or from disruptive competition** - particularly startups who have impact embedded in their strategy.

2.5 Perceived change in cultural values

Business leaders are keenly aware of changing public sentiment and media scrutiny regarding societal and environmental issues. For many CEOs, **insight into the next generation of employee and consumer values comes via their own children** (CEO-daughter effect, see page 22).

Cultural values subsequently contribute to the broader context in which the other drivers operate and underpin the entire system of change - particularly investor, employee and regulatory response.

2.6 Capability vacuum

A small number of business leaders perceived a lack of leadership and capability in government as having left a 'capability vacuum' and unmet societal and environmental needs.

This has driven some businesses to attempt fill this gap for a mutual benefit to society and the business.

The drivers are resulting in new visible business **behaviours (many of which are still peripheral),** which in turn leads to a **perception that changes are 'the norm' and that further change is inevitable.**

This suggests the presence of an **availability cascade** (definition page 19), whereby this belief is self-reinforcing and ultimately contributes to normalising business transformation.

Additionally there are early indications of a **network effect (**definition page 19) whereby businesses undergoing transformation gain benefit as more and more businesses join them e.g. prioritising partners with strong ESG performance to support Scope 3 reporting.

> **"There is an acceleration of the phenomenon that will self-amplify. By the end of the decade, we will be in a fundamentally different situation. Everyone recognises this is happening."**
>
> **- CEO, France**

INSIGHTS FROM BEHAVIOURAL PSYCHOLOGY

Availability cascade:
"An availability cascade is a self-reinforcing process of collective belief formation by which an expressed perception triggers a chain reaction that gives the perception of increasing plausibility through its rising availability in public discourse."

Cass R. Sunstein & Timur Kuran, "Availability Cascades and Risk Regulation" (John M. Olin Program in Law and Economics Working Paper No. 364, 2007).

Network effect:
"A phenomenon whereby a product or service gains additional value as more people use it" (e.g. A growing network of companies that choose to do business with each other on the basis of the mutual ESG benefits it will provide).

Corporate Finance Institute. "Network Effect." https://corporatefinanceinstitute.com/resources/knowledge/economics/what-is-network-effect

2.1 ATTRACTION, RETENTION & ENGAGEMENT OF TALENT

Attraction of talent is a key driver for most business leaders - aligning with the values and expectations of a younger generation of employees.

"If we don't do it, there won't be a young person that will want to work with us... It will pay off in the long term, in the engagement of our collaborators and richness of our new recruits." **- CEO, France**

"In the war for talent, the young high potentials have views they won't give up." **- CEO, Germany**

"We know that we won't be able to recruit the best people if we don't take a proper stand on these issues." **- CEO, UK**

Meanwhile, many are being driven by engagement and retention of existing teams - as this is seen as directly increasing productivity and loyalty.

"To engage people on ESG, it will increase our level of engagement, which will increase our performance... It's a way to finance the transformation, ignite a positive dynamic in the company that will allow us to devote more time, more energy." **- CFO, France**

"No one yet has picked up on the impact of employees and how that will influence what companies do …Employees will shout louder about these topics." **- CEO, UK**

Some business leaders and experts are noticing this shift in power from leadership to employees, referred to as 'democratisation of the workplace' or 'decentralisation of power'.

"There is a shift in the decentralisation of power within companies. The tail is wagging the dog." **- Expert**

"Employees have a lot more power than they used to. This is where individuals are having real impact, not through consumption choices but by choosing a place of work that aligns with their values." - **Expert**

"The 'great resignation' has arrived. Employees have a lot more power now." **- CEO, UK**

2.2 CHANGING REGULATIONS

Anticipation of regulation is driving many CEOs to pursue CSR strategies and engage in sustainable business transformation.

"Honestly, the single strongest push will come from regulation. I wish it weren't true but that is what will make most businesses change." **- CEO, UK**

"In Europe, in the next 5 years the regulation is coming. You just will not be able to run a viable business with CO2 emissions." **- CEO, Germany**

"In the textile business, I can no longer afford not to be committed to the environment… Regulation is coming in strong and fast." **- CEO, France**

The EU sustainability taxonomy is frequently cited as a driver of change in France and Germany. However, the impact of UK's recently announced (late 2021) sustainability disclosure requirements (SDR) were not yet evident in the research.

"Clients contact us to understand how new EU regulation will impact them and ask if their policies are aligned." **- Expert**

"The EU taxonomy will be very significant. We are offering solutions for clients which have to conform to EU regulation. We had been ahead of regulation but now we have official regulation." **- CEO, Germany**

"French legislation is really pushing things. I think Germany is perceived in the same way too. The UK is a little behind there." **- Expert**

2.3 GROWING PRESSURE FROM INVESTORS / FINANCIAL INSTITUTIONS

Many are noting a growing push for 'ESG' coming from the finance world (private equity, banks, investors), and highlighting the risk in non-conforming to investment policies or access to additional funds.

"My CFO was a staunchly against moving in this direction - this completely changed when he saw that the financial environment was changing... Investors actually care about this." **- CEO, France**

"Momentum with investors for public companies has been the single biggest driver... As a CEO, you get your messages from your investors… and the number of sessions focused on ESG has risen dramatically." **- CEO, UK**

"There is no institutional investor who would allow us to invest in a ways that are not aligned with ESG goals." **- CEO, Germany**

This is marking a perceived switch from ethical and moralistic framing of business transformation ('responsibility', 'what you should do') to one of financial imperative ('what you have to do', 'what you are measured on').

"We're not talking about CSR anymore, we're talking about ESG… CSR is something you 'should do' - but you're not going to be measured on it… it's much more wishy washy." **- CEO, UK**

2.4 BUSINESS-CRITICAL (SUPPLY-CHAIN, LICENCE TO OPERATE, COMPETITION)

In a number of industries, business leaders cited critical threats to business operations as a driver of change e.g. threats to supply chain, social licence to operate, rising prices of petrol.

"The risk is we cannot produce anymore in 40, 50 or 60 years, so it's not only about getting rich, it's about survival."- **CFO, France**

"In the 1990s and 2000s we were focused on our permit levels, then energy was getting expensive so we reduced costs. Fuel got expensive so we got into alternative fuels." **- CEO, Germany**

Some also referenced the threat from competition, particularly startups who have had impact embedded in strategy from inception.

"Unless someone else eats your slice of the pie, some businesses can pretend for a while. Startups make large companies take notice. Allbirds (B Corp) shoes got Adidas' attention, 'Who gives a crap' (B Corp) is fundamentally threatening the traditional market." **- Expert**

"We have competitors, little startups who have this in their DNA. It's hard to compete." **- CEO, UK**

A small number of CEOs are seeing investing in social and environmental impact as an opportunity to differentiate themselves from others and become leaders in this field.

"Our goal is to become a completely sustainable business. We purchased a company to facilitate a circular economy. With this we can expand our market, increase the quality of our products, reduce costs and introduce synergies."... "We want to be the first." **- CEO, France**

2.5 PERCEIVED CHANGE IN CULTURAL VALUES

Leaders are highly conscious of shifting public sentiment and media scrutiny around social and environmental issues. Reflecting changing cultural values, these are an underlying driver of change influencing all aspects of business.

"There is much more scrutiny and desire for transparency. There are also many issues mobilising society like Black Lives Matter, MeToo, Fridays for Future." **- CEO, Germany**

*"Focus on environmental and social issues has gone mainstream. After Greta's speech, the public sentiment started to change."***- CEO, UK**

For many, this awareness in changing cultural values is also being driven by CEOs' direct experience with their own children.

Previous research suggests the presence of a CEO-daughter effect (see page 22), whereby CEOs with daughters have been found to demonstrate stronger prosocial values.
While not the focus of this study, our research indicates it might be exposure to the prosocial values common to a younger generation (and not just gender) that is influencing CEO parents.

"I have young kids that put pressure on me. 'Don't throw food away', 'don't fly'. Any time we fly they make you think of everything you do and waste. They even aren't into cars anymore." **- CEO, Germany**

"My children, they educated me… I realised the change we're talking about is real. The values of the younger generation are changing." **- CEO, Germany**

INSIGHTS FROM BEHAVIOURAL PSYCHOLOGY

CEO-daughter effect (2017 research): *"the firms of CEOs who have daughters have a 9.1% higher corporate social responsibility rating (CSR), compared to a median. The relation is strongest for diversity, but significant also for broader pro-social practices related to the environment and employee relations."*

Henrik Cronqvist, Frank Yu, Shaped by their daughters: Executives, female socialization, and corporate social responsibility, Journal of Financial Economics, Volume 126, Issue 3, 2017, Pages 543-562, ISSN 0304-405X

2.6 CAPABILITY VACUUM / LACK OF GOVERNMENT ACTION (PERCEIVED)

A small number of business leaders perceived a lack of leadership and capability in government (whether this is locally or internationally) as having left a 'capability vacuum' and unmet societal and environmental needs.

Some business leaders appear keen to address these needs for mutual benefit.

"We ask ourselves 'what is the problem in our surroundings and what is sensible for us to get involved in'? In some countries where aspects of government services are weak, we can act. We might have children who need surgery or retired workers having to work as they don't have enough pension. We can help here."
- CEO, Germany

"If the state was a good manager, then I wouldn't need to focus on these issues, but the state is not a good manager." **- CEO, France**

For these CEOs, businesses are uniquely structured to solve societal and environmental problems - and are therefore able to do this much faster than governments.

"As a business we can move much faster than the government on some of these issues." **- CEO, UK**

"For me, a business is in the public space. It has a role to step in and it is uniquely designed to do so. All a state can do is apply ointment or sanctions - but that never solved an illness." **- CEO, France**

"Business can move five times faster than policy, so we are doing this anyway. Only the business set up can develop and manufacture to get vaccines to market."
- Germany

IMPACT OF THE COVID-19 PANDEMIC*

The Covid-19 pandemic is frequently identified as a disruptor of Business as Usual, and accelerator of change: exposing business fragilities and the need to transform supply chains (particularly diversifying and localising resources)*.

"Covid has changed the supply chain strategy, from thinking about global supply like China and India, to be more regional and local." **- CEO, Germany**

"I strongly believe business was transitioning pre-Covid but this has accelerated with Covid. Covid has highlighted the fragility in our productivity." **- CEO, France**

A second impact of the pandemic has been the re-appraisal and re-prioritisation of people's values.

"Covid has brought this forward, everything was paused. Covid has given people pause to reflect, to think about yourself and the role of your business. People could go on a walk, and realise that 'this isn't quite right'." **- CEO, UK**

"Covid has focused minds and accelerated the rate of pace of change." **- CEO, UK**

Covid-19 also appears to have driven decentralisation of business decision making and empowered employees.

"During Covid, leaders haven't been able to be as close in person, and have had to devolve decision-making and trust others in the organisation to get on with it and that allows people to shine." **- Expert**

** This excludes industries which have seen their income drastically impacted by the pandemic (e.g. travel), and are therefore less able to invest in sustainability initiatives. In these cases, the Covid-19 pandemic has had the reverse effect.*

CLIMATE CHANGE & URGENCY OF TRANSFORMATION

Is climate change/ climate change science cited as a driver toward change?

Climate Change is rarely cited as a direct driver of urgency, although it directly impacts many of the drivers which have been observed (e.g. employees being aware of this and wanting their company to change, governments implementing regulations to reduce CO2 emissions etc.). However, most CEOs and business leaders accept expert consensus views on climate science and climate change.

How fast are things changing? How long do business leaders think they have?

The pace of change differs significantly according to industry, maturity of market regulations, and CEO mindset.

Industries facing immediate business critical threats such as supply chain risks (e.g. manufacturers) and disruptive competitors (e.g. industries being disrupted by startups) experience greater urgency to transform their businesses.

The six different CEO mindsets identified in the research (see pages 39 & 40) have varying degrees of urgency towards business transformation, however several CEO mindsets appear to be taking more urgent action:

- CEOs who are pursuing a first mover advantage and proactively investing in strategy and initiatives.
- CEOs who have always been driven by strong prosocial values (long-term advocates), or those who have reached a career tipping point and are now driven to 'give back' (The legacy builder).

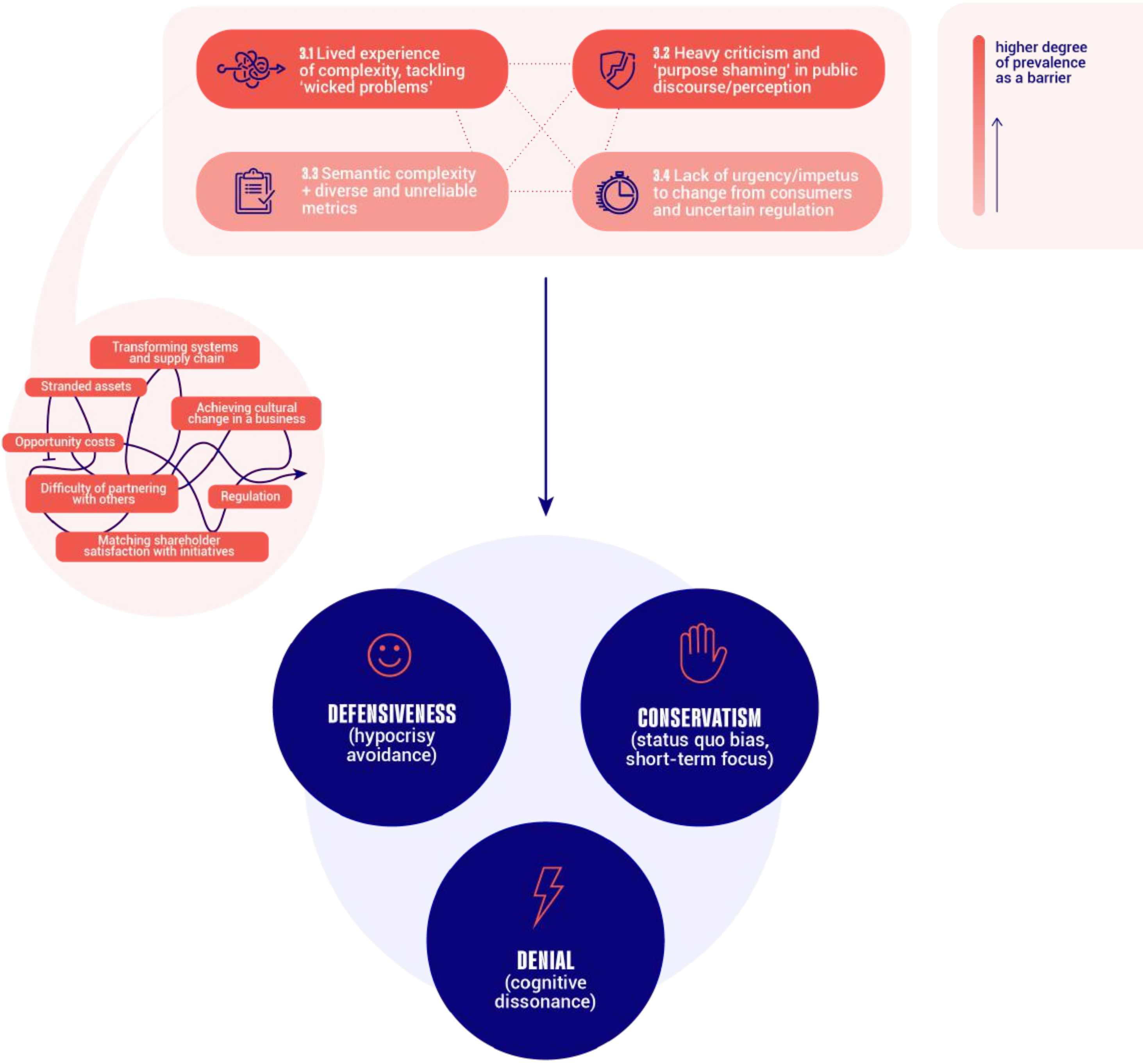
3

BARRIERS CREATING FRICTION FOR BUSINESS TRANSFORMATION

BARRIERS

CREATING FRICTION FOR SUSTAINABLE BUSINESS TRANSFORMATION

The model below outlines the barriers interacting to collectively trigger emotional and cognitive responses which in turn lead to inaction. The primary barrier - lived experience of tackling 'wicked problems' has been detailed to show the key elements.



What barriers are hindering sustainable business transformation?

This section outlines the **four key barriers** faced by business leaders, in order of prevalence/ perceived strength. As with drivers, these act within a system and impact one another, collectively triggering emotional and cognitive responses which underpin **inaction**:

- **Defensiveness** - hypocrisy avoidance (want to avoid appearing hypocritical)
- **Denial** - cognitive dissonance (too much contradictory information creating denial)
- **Conservatism** - status quo bias (preferring inaction over action to avoid risk) and short term focus (prioritising immediate gain over long term benefits)

INSIGHTS FROM BEHAVIOURAL PSYCHOLOGY

HYPOCRISY AVOIDANCE

Research suggests companies may deliberately withhold information about their societal and environmental initiatives in order to avoid potential criticism that may come from perceived hypocritical actions and intentions. Hypocrisy avoidance potentially undermines the increasing perception of change (availability cascade) as businesses 'hide' their activities from public.

Carlos WC, Lewis BW. Strategic Silence: Withholding Certification Status as a Hypocrisy Avoidance Tactic. Administrative Science Quarterly. 2018;63(1):130-169. doi:10.1177/0001839217695089

STATUS QUO

Research suggests under conditions of uncertainty, risk or complexity, inaction (the status quo) is often preferred over action. Several studies demonstrate this status quo extends to company leaders and boards, who maintain the status quo or defer to historic business strategies when faced with uncertainty.

Combe, I. A., & Carrington, D. J. (2015). Leaders' sensemaking under crises: Emerging cognitive consensus over time within management teams. Leadership Quarterly, 26(3), 307–322.
Merendino & Sarens (2020), Crisis? What crisis? Exploring the cognitive constraints on boards of directors in times of uncertainty.

COGNITIVE-DISSONANCE

Cognitive dissonance refers to the psychological state experienced when individuals behave in ways that contradict their perceived beliefs or values, or hold contradictory beliefs. Research demonstrates individuals commonly seek to resolve these contradictions via avoidance behaviours such as denial or confirmation bias.

Festinger, L. (1957). A Theory of cognitive dissonance. Stanford, CA: Stanford University Press.

SHORT-TERM FOCUS

In times of 'financial uncertainty or crisis', research suggests some company directors prioritise immediate gain over long-term benefits. The friction experienced in navigating sustainable business transformation is potentially triggering a similar response amongst some business leaders.

Merendino & Sarens (2020), Crisis? What crisis? Exploring the cognitive constraints on boards of directors in times of uncertainty.

3.1 Lived experience of complexity, tackling 'wicked problems'

The primary barrier for most businesses relates to the process of business transformation requiring resolution of 'Wicked Problems' faced by CEOs - a problem that is **difficult or impossible to solve because of incomplete, contradictory, and changing requirements** that are often difficult to recognise. As a wicked problem, sustainable business transformation has no optimal solution and requires **systemic analysis.**

Business leaders face a **high degree of complexity** on the path to business transformation, such as transforming systems and supply chains, managing stranded assets, technical complexity, regulation, managing culture change and opportunity costs, while also managing shareholder expectations.

3.2 Heavy criticism and 'purpose shaming' in public discourse/perception

In contrast, business leaders feel media and public discourse are **simplifying the issues,** creating a **simple dichotomy between 'good' businesses and 'bad' businesses** & framing the subject through **a moral lens.**

Many business leaders are highly sensitive to the prospect of being shamed ('Purpose Shaming') if they fail to live up to public expectations.

This is leading to **defensiveness, inaction and avoidance**, whereby some business leaders may be motivated to delay or minimise promotion of societal and environmental initiatives in order to reduce potential accusation of hypocrisy.

Secondary barriers faced by some businesses relate to conceptual and semantic complexity and lack of urgency/impetus to change from consumers and uncertain regulation.

3.3 Semantic complexity + diverse and unreliable metrics

The diversity in topics, language and metrics is leading to inconsistent comprehension and inaccurate appraisal of progress - CEOs **are struggling to navigate and prioritise within such a fragmented categories**. In addition, there is a perception that ESG scores can be 'bought', and thus **lack credibility.**

3.4 Lack of urgency/impetus to change from consumers and uncertain regulation

Many business leaders believe **consumer behaviour isn't changing as fast as has been predicted**. In addition, some believe that **regulation is currently unstable and unpredictable**, and are 'waiting' for an authoritative regulatory body/ source of 'truth'.
Both of these elements are reducing urgency to take action.

CHARACTERISTICS OF 'WICKED PROBLEMS'

1. There is no definitive formulation of a wicked problem.
2. Wicked problems have no stopping rule.
3. Solutions to wicked problems are not true-or-false, but better or worse.
4. There is no immediate and no ultimate test of a solution to a wicked problem.
5. Every solution to a wicked problem is a "one-shot operation"; because there is no opportunity to learn by trial and error, every attempt counts significantly.
6. Wicked problems do not have an enumerable set of potential solutions.
7. Every wicked problem is essentially unique.
8. Every wicked problem can be considered to be a symptom of another problem.
9. The existence of a discrepancy representing a wicked problem can be explained in numerous ways. The choice of explanation determines the nature of the problem's resolution.

Rittel, H.W.J., Webber, M.M. Dilemmas in a general theory of planning. Policy Sci 4, 155–169 (1973). https://doi.org/10.1007/BF01405730

Ritchey, Tom. (2013). Wicked Problems: Modelling Social Messes with Morphological Analysis. Acta Morphologica Generalis. 2.

3.1 LIVED EXPERIENCE OF COMPLEXITY : 'WICKED PROBLEMS'

Of the barriers to sustainable business transformation, the strongest is its nature as a 'wicked problem' (have no optimal solution, require systemic analysis, resolving one problem leads to the creation of another... see characteristics page 28).

"In a world that is becoming incredibly complex, solving these types of problems is becoming tougher and tougher." **- CEO, UK**

"We assess ROI of initiatives, but how do we balance short and long term profit? Projects which are societal or environmental also don't benefit from existing infrastructure in the company, so they start behind."
- CEO, Germany

Specifically, CEOs referred to:

Transforming systems and supply chain, stranded assets, dealing with technical complexity

"It's so much more complex than people think it is. We hire people for that... People think that having a factory in China means more CO2, but that's not always the case."
- CEO, France

"We will have assets where we won't have a tenant anymore. If there is an asset which is polluting and you can't sell it or use it. It's stranded."
- CEO, Germany

Matching opposing needs and priorities - i.e shareholder satisfaction with sustainability initiatives

"Decision making around investment costs...very long term programs that will not provide a better next quarter results to announce... those are difficult decisions to make." **- CEO, UK**

Partnering with others (and the ability to have impact on the whole system)

"I really struggle to get other businesses to join my initiatives... I need to have better partnerships to work at a bigger scale...because of this I haven't had the impact I would have liked." **- CEO, France**

Keeping up with and managing regulation

"We are dealing with a lot of regulation, both national and European regulation but they are largely uncoordinated."
- CEO, Germany

"The regulation is extremely complex. We actually have to hire experts to help us understand it"
- CEO, France

Achieving cultural change
"To increase the level of engagement you have to change the mode of leadership...it's hard to reach the 25 000 people that work here." **- CEO, Germany**

"Gearing organisations up to change culturally over a period of decades is a hard thing to do because of size and scale of these organisations."
- CEO, UK

Opportunity costs (benefits which are missed out on when choosing one alternative over another) involved in decision making - occurring at 3 levels :

- **individual:** limited cognitive and physical resources to attend to the business as well as , and need to invest 'personal time' to pursue business transformation initiatives
- **business:** CSR and impact initiatives often seen to be 'competing' for resources with other business initiatives such as marketing and operations
- **other societal or environmental initiatives:** deciding which of multiple CSR/ impact initiatives to prioritise

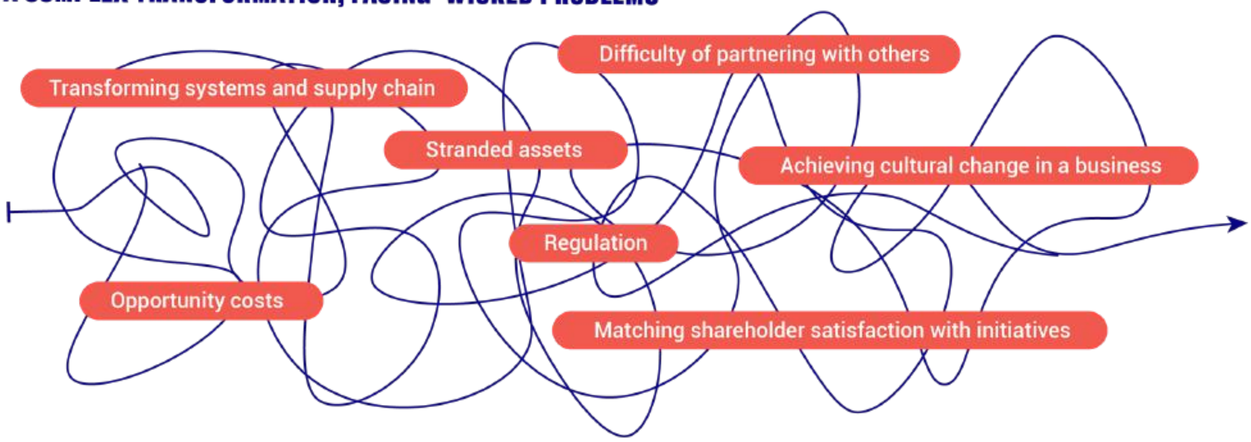
"Every single time, every decision costs something...Making social and environmental progress costs euros...All this is profit that I do not give to my shareholder."
- CEO, France

"The first challenge is the absence of resource, headcount, budget and corporate alignment. As soon as an initiative is up and running, it is competing against other internal business model initiatives that already have their budgets, existing infrastructure and processes." **- CEO, Germany**

3.2 HEAVY CRITICISM AND 'PURPOSE SHAMING' IN PUBLIC DISCOURSE/PERCEPTION

PUBLIC & MEDIA PERCEPTION: A BINARY CHANGE FROM 'BAD' TO 'GOOD'

LIVED EXPERIENCE OF CEOS: A COMPLEX TRANSFORMATION, FACING 'WICKED PROBLEMS'*'



Simplistic public and media perceptions and expectations of sustainable business transformation are clashing with CEOs' lived experience of complexity.

Many business leaders highlight a dichotomy in public discourse between 'good business' vs. 'bad business', which have businesses continually reacting to the latest concern.

"We are far too driven by the headlines tomorrow and social media spikes." **- CEO, UK**

"It's a monothematic approach… They (the public) are not taking the palm oil issue holistically. It's a very vast topic, it needs to be understood holistically with a helicopter perspective."
- CEO, Germany

Morality is the dominant frame through which most public discourse on business and impact are occurring (e.g. 'purpose' 'responsibility', 'commitment', 'equality', 'inclusion'): CEOs feel compelled and ill-equipped to navigate moral positions while engaging in business related sustainability themes.

"We are suffering from the caricature of the super-simplifying and anti-corporate media. They live in a simple world where corporations are evil and bosses are evil."
- CFO, France

"They are exposed to the whims of the loudest NGO around" "navigating from shitstorm to shitstorm, being accused of being an evil monster" **- Expert**

This 'Purpose Shaming' is causing a defensive mindset, making CEOs reactive (hypocrisy avoidance).

"We must try to be heard in a hyper-mediated world. We must say what we do, do what we say, try to be pedagogical in a kind of cacophony."..."It makes you want to give up" "The criticism is systematic." **- CEO, France**

"Another answer could lie in executives' worry about appearing hypocritical, if they fear that some of their other corporate activities do not live up to the expectations they would set with extensive CSR engagements.." **- Expert**

"They are running around from one crisis to the next like a headless chicken.. Trying to anticipate where the next blow will come from." **- Expert**

Business leaders acknowledge they need to improve on communicating the complexity of navigating these changes.

"The level of complexity here… It's a nightmare trying to sell that to consumers from a comms perspective..." **- CEO, UK**

"We're not creating enough opportunities to have these conversations. We need to communicate complex issues easily, where they trust us." **- CEO, Germany**

3.3 SEMANTIC COMPLEXITY + DIVERSE AND UNRELIABLE METRICS

A secondary barrier is that of semantic and metric complexity. There are multiple emerging fields within the area of sustainable business transformation, each with different levels of maturity and sophistication, ways of measuring, and with their own rising and falling popularity levels.

The diversity in topics and language is leading to inconsistent comprehension: CEOs are struggling to navigate and prioritise within such a fragmented category.

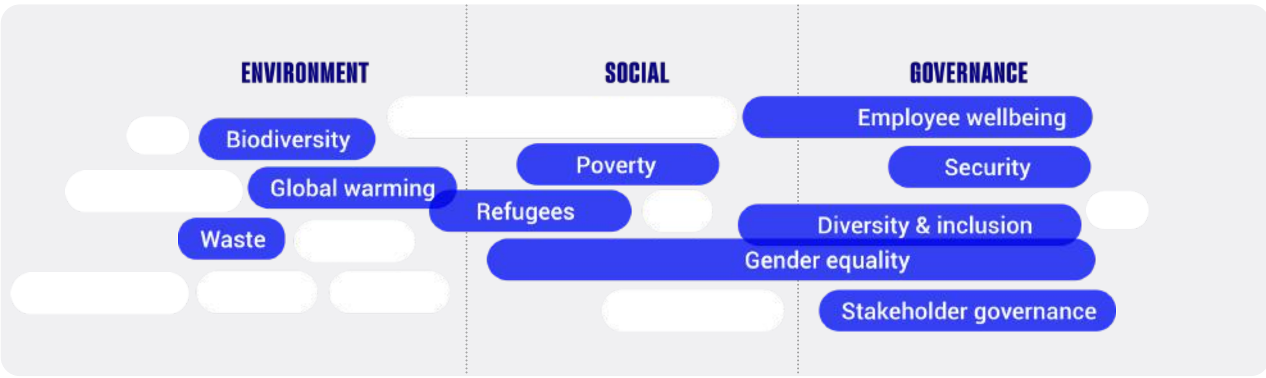
"There's 'ESG', 'CSR', 'purpose', 'sustainability'... And within that so many different areas. I often think we are talking about different things if we don't stop and define terms." **- CEO, UK**

"Not all topics are the same - for example the societal impact of a company has nothing to do with reducing the carbon footprint...There is a real issue around the prioritisation of injunctions. Some topics are easier to navigate than others." **- CEO, France**

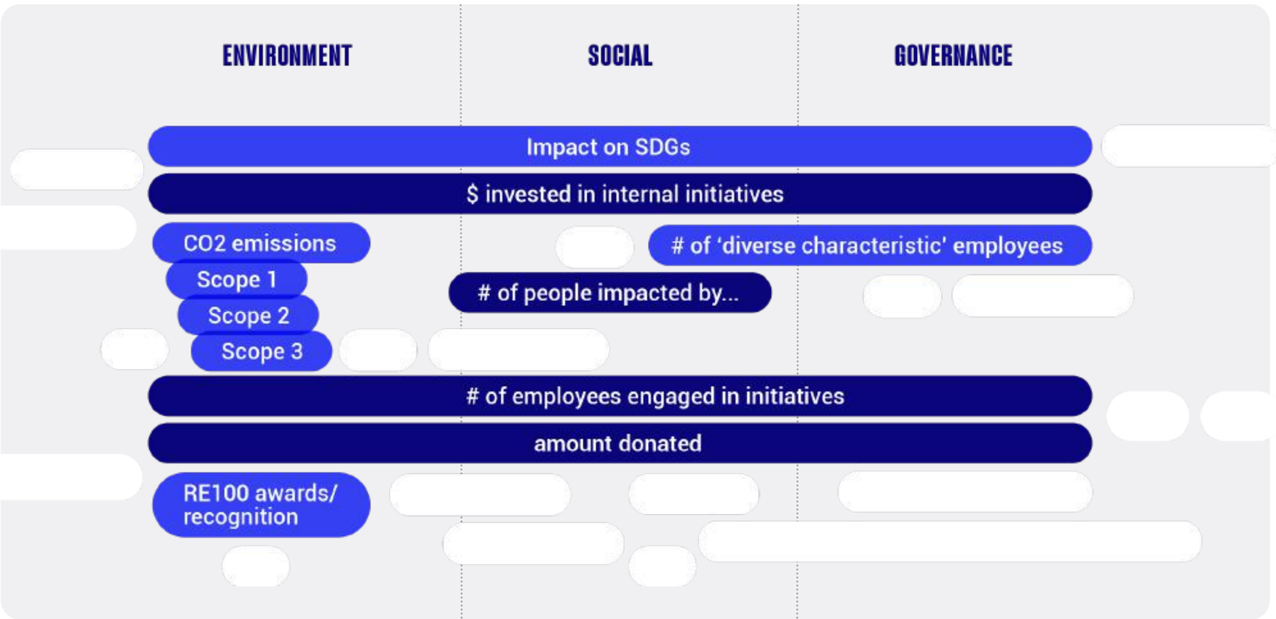
The three diagrams below highlight the diversity of terminology, topics and metrics used by participants when referring to issues relating to sustainable business transformation.

TERMINOLOGY : DIVERSITY OF TERMS USED BY BUSINESS LEADERS AND EXPERTS

TOPICS : DIVERSITY OF AREAS COVERED



METRICS : DIVERSITY OF INDICATORS USED TO MEASURE IMPACT AND CHANGE



Many business leaders referred to the "jungle of metrics": a lack of universal or shared metrics, making it difficult to correctly appraise progress.

"I believe we need metrics - without measurement there is no progress... But we need more time and effort for the measures to be consistent, to be useful."
- CEO, France

Many held the belief that metrics such as ESG scores can be 'bought', and thus lack credibility.

"They (consultants) know how to put glitter where it pleases... Help businesses have access to new pockets of funding. For example there are a lot of low hanging fruits in the 'Governance' aspect...ways to increase your score easily."
- CEO, France

Rather than a real lever for change, some saw the push toward 'ESG' as a 'tick box' exercise rather than a way to achieve genuine impact.

"I'm not sure they are that bothered about what you ESG/CSR projects are… they need to be able to tick a box, to say that the business they've invested in has some kind of credentials."
- CEO, UK

3.4 LACK OF URGENCY/ IMPETUS TO CHANGE FROM CONSUMERS AND REGULATION

Finally, a lack of impetus from two expected and anticipated drivers of change - consumer behaviour and regulation are delaying action.

CONSUMER BEHAVIOUR
Despite a trend toward more sustainable and impact-led career opportunities (see 2.1 page 19), many business leaders note that consumer demand and willingness to spend in line with changing values is yet to have occurred at the scale they had expected.

"Mass consumers are still not there. They are not ready to do what actually counts. They are a bit 'plastic'... not willing to pay more to do more. There's no huge consumer paradigm shifts."
- CEO, UK

"There is more noise than consumer action. The changing consumer expectations are manifesting more in terms of young people wanting to work for companies with aligned values than their consumption choices."
- Expert

REGULATION
Many are finding an 'uneven playing field' due to the lack of universal regulations (difficulty of being competitive internationally if other countries are not playing by the same rules).

Policy uncertainty and instability is also causing some companies to avoid investing in a particular strategy in case there is unexpected change in regulation.

Some are waiting for a more definitive source of 'truth' - a central authority to speak on fundamental issues (e.g. electric vehicle policy).

"We are legally obliged to advance ecological issues, but the government does not protect us from global competition on the subject... It's unfair." **- CFO, France**

"Having social impact at heart of business is key, but who is defining the right purpose? The politicians define what are good or bad contributions to society, but this moral relativism will hamper business."
- CEO, Germany

"We're waiting and seeing what comes out of the election. It's not worth investing in it now if the regulation is completely different in a year's time."
- CEO, France

4

BEHAVIOURAL PROFILES

KEY BEHAVIOURAL TRENDS AND PROFILES FOR BUSINESSES & CEOS

BEHAVIOURAL PROFILES

BUSINESS PROFILES AND CARACTERISTICS

HIGH public commitment to social & environmental impact

LOW public commitment to social & environmental impact

MINIMAL change to operations/ business model'

SIGNIFICANT change to operations /business model

'MORE TALK THAN ACTION'

- Initiatives are **peripheral to core business despite public commitment**
- **Gap between ambitions and budgets/ capability /actions** (short term profit is primary incentive)
- **Lack critical viewpoint** of existing initiatives

"The difference between companies is those who speak the loudest with words but not facts, and those who talk in facts and details." - **CEO, France**

- Attraction, retention & engagement of talent
- Lived experience of complexity, tackling 'wicked problems'
- Growing pressure from investors / financial institutions
- Semantic complexity + diverse and unreliable metrics

'PUBLIC FIRST MOVER'

- Transforming **core business - investing resources in long-term strategy**
- Some feel these businesses **risk going too fast** and pushing the company faster than it can sustain (can lead to pushback and failure)
- Some are **'reformers'** who are transforming the business in response to crisis or criticism.

- Perceived change in cultural values
- Capability vacuum / lack of government action (perceived)
- Critical threats to business operations

'REDUCE PERIPHERAL HARM'

- See **CSR as peripheral to core business** and focused on reducing negative externalities - minimal changes to core business. Little comprehension of what an integrated strategy could be
- **False consensus**: assumption that other businesses, partners, stakeholders are happy with business as usual
- For those where **core business is fundamentally 'unsustainable'** (e.g. mining, fast fashion), transformation requires overhaul or deconstruction which slows progress

"If I've got to change my entire products or services - which my company has spent decades building and refining, as well as the business models and structures we operate in, then structural change is really difficult." - **Expert**

- Existing and anticipated regulations
- Lack of urgency/impetus to change from consumers and uncertain regulation
- Growing pressure from investors / financial institutions
- Lived experience of complexity, tackling 'wicked problems'

'QUIET STRATEGY'

- See sustainable business transformation as a strategic advantage - are working on or have **developed innovative solutions**
- **Don't want to over-promise**, be accused of green/social washing or lose competitive advantage

"We prefer to stay quiet until we can prove we are having real impact." - **CEO, UK**

" Some feel they shouldn't do before they speak until they achieve the mission."- **CEO, France**

- Critical threats to business operations
- Heavy criticism and 'purpose shaming' in public discourse/perception

Can businesses and CEOs be categorised into types or behavioural profiles? How does behaviour and perception vary according to markets, business structure and industry?

The research identified two core differentiators in business behaviour:

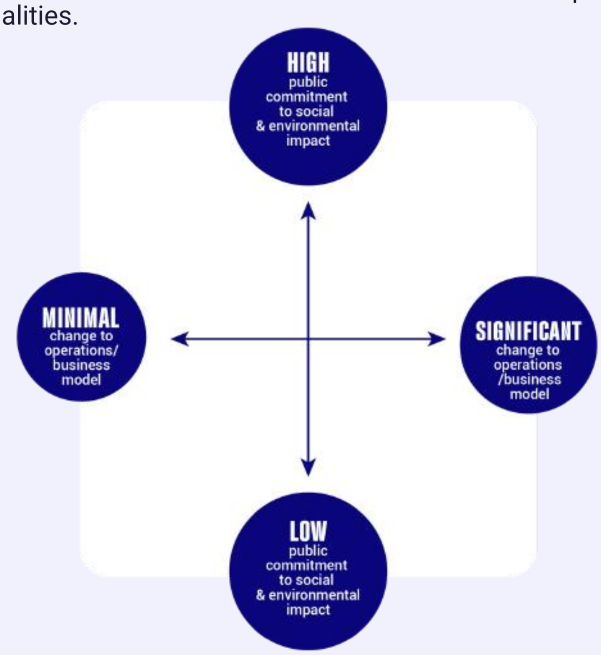
Public commitment: how much businesses are publicly communicating on this topic.

Behaviour: the level of change toward sustainable business transformation i.e. to operations or business models
Examples of minimal change: raising money for charity, staff volunteer days, ad hoc initiatives etc.
Examples of significant change: formal roadmap linked with purpose/ mission statement and with specific targets etc.
> See full list of indicators in appendix page 44

Mapping businesses along these two scales through a behavioural matrix allows for the identification of 4 company profiles.

4.1 'Reduce Peripheral harm'

(Minimal change to operations, low public commitment) See CSR as peripheral to core business, and focus on reducing negative externalities.



4.2 'More talk than action'

(Minimal change to operations, high public commitment) Initiatives and impact are still small and peripheral despite public commitment.

4.3 'Public first movers'

(Significant change to operations, high public commitment) Proactively investing in and signalling strategy and initiatives which are transforming core business.

4.4 'Quiet strategy'

(Significant change to operations, low public commitment) See sustainable business transformation as a strategic advantage and are investing in strategy and initiatives but not overtly communicating.

Whilst **differences according to countries** are modest (all are seen as leaders in this space), the following were frequently identified:

France:
- Perceived as regulation innovators (outside of France)
- Sustainability appears more prevalent in public discourse

Germany:
- A pragmatic and reserved approach, with some taking action without promoting

UK:
- Bigger focus on charity donations
- 'ESG' expertise of London financial markets recognized

The following differences were identified according to business structure:
- **Private equity funding**: potential for stronger relationship between leadership and investors, more likely to back long-term initiatives
- **Family business:** longer term vision, more focus on reputation, highly dependent on historical and personal characteristics of the family
- **Publicly listed**: stronger focus on short term financial performance

Finally, this research identified **6 CEO mindsets**, as plotted along the scale of change they are able and willing to make to their business model :
- **The business purist** (see business as inherently causing positive impact)
- **The sporadic initiator** (peripheral CSR initiatives)
- **The striving navigator** (want to have more impact but struggling to navigate)
- **The advantage seeker** (see & seek competitive advantage)
- **The legacy builder** (reached a tipping point moment, want to 'give back')
- **The long term advocate** (have always had strong pro-social values)

N.B. Businesses face challenges of **varying degrees of complexity depending on industry** (i.e. construction vs. banking), which significantly impacts their ability to make changes to operations. While the sample is not robust enough to provide comparisons across industries, there are notable differences between companies depending on 'Business capital structures', and 'Market' (country).

EXPLORING MARKET DIFFERENCES

Generally, the differences between markets were modest, with all three seen as leaders in sustainable business transformation. Key drivers, barriers, behaviours and profiles remain the same, with some small differences in approach and regulatory/ political context:

FRANCE

In France, debates around sustainability and the role of business in society appear **more publicly prevalent, with businesses more frequently communicating** around these.

Many identified the presence of **heavier regulation** as a driver of **innovation** for those outside of France (Duty of vigilance, 'enterprise à mission' etc).

> **"The way the French legislation is pushing things is really interesting... I'm looking forward to seeing how that plays out and impacts businesses."**
>
> **- Expert**

Businesses and CEOs appeared to be **more critical of government bureaucracy and regulations,** leading some to say they are taking action **in the place of government.**

GERMANY

Businesses in Germany **appeared more pragmatic and reserved,** with many taking action without wanting to self-promote publicly.

The majority felt they had "***always been doing this***" ***:*** they have **always been thinking in long term and with sustainability in mind.**

This was noted by some as being due to post war settlement and reconstruction, integrated social market economy and a high percentage of **German businesses being family-owned** (see page 35).

Historically, business initiatives appear to have been more focused on 'Social' and 'Governance' than the 'Environment' components of ESG (e.g. employee wellbeing). Some experts note that the removal of energy subsidies and increasing energy costs are now shifting this focus back to the Environment.

As a larger trading country, there also appears strong concern about **lack of regulation for international competition.** However, this was seen to be changing due to policies such as the carbon border adjustment mechanism (EU CBAM).

UNITED KINGDOM

In the UK, businesses appear to place a greater focus on **charity donations and partnerships.** This may partially be explained by the prevalence of NGOs located in London and long history and culture of charity donations in the UK.

Some noted a **less immediate influence of regulation** in driving sustainable business transformation in the UK, though some believe this will change with recently announced (late 2021) sustainability disclosure requirements (SDR).

> **"The UK government is not a voice of progress. I hear less about UK businesses making big commitments to reducing carbon footprints goals"**
>
> **- Expert**

Finally, some experts highlighted the maturity of **financial ESG metrics** (e.g. KPI development) and **financial corporate governance in the UK**.

EXPLORING BUSINESS CAPITAL STRUCTURE DIFFERENCES

Business capital structures have a significant impact on the incentives and constraints for business leaders in pursuing sustainable business transformation.

Key differentiators relate to the quality of relationship with shareholders, and willingness to back long-term investments.

PRIVATE EQUITY FUNDING

Leaders of private equity-funded businesses report potential for a **stronger working relationship with private equity investors** when it comes to sustainable business transformation. These stakeholders were perceived as more **willing to place long term bets.**

"Our private ownership gives us greater proximity with the decision makers than publicly listed. There's more humanity in private capitalism, because the shareholders are identifiable in a community." **- CEO, Germany**

"Share price performance leads to short-termism. Putting pressure on the next quarter results isn't going to drive sustainability initiatives, that requires more long term vision." **- CEO, UK**

FAMILY-OWNED BUSINESS

Family-owned businesses often have **social purpose as part of their heritage** - many of those interviewed had been developing initiatives (for example to support local communities) for decades.

These businesses were much more likely to think in terms of **intergenerational time horizons** in relation to transitioning business to the next generation of the family.

As the reputation of the business reflects on the family name, there is also a **heightened focus on reputation.**

Some experts highlight that initiatives are dependent on the characteristics of the family, and are thus more **idiosyncratic than strategic.** Some family business owners may **see sustainable business transformation as a short-term fad.**

"It's a family owned business, the family own the majority of capital and voting rights, so our time horizons are about the next generation." **- CEO, France**

"Being a family owned business allows us to be beyond profit. To invest over the longer term - for example investing in supporting the communities in which we operate." **- CEO, UK**

PUBLICLY LISTED COMPANY

Publicly-listed companies tend to focus on **stronger short term financial performance for shareholders -** many of the business leaders interviewed cited this tension as a key barrier to change.

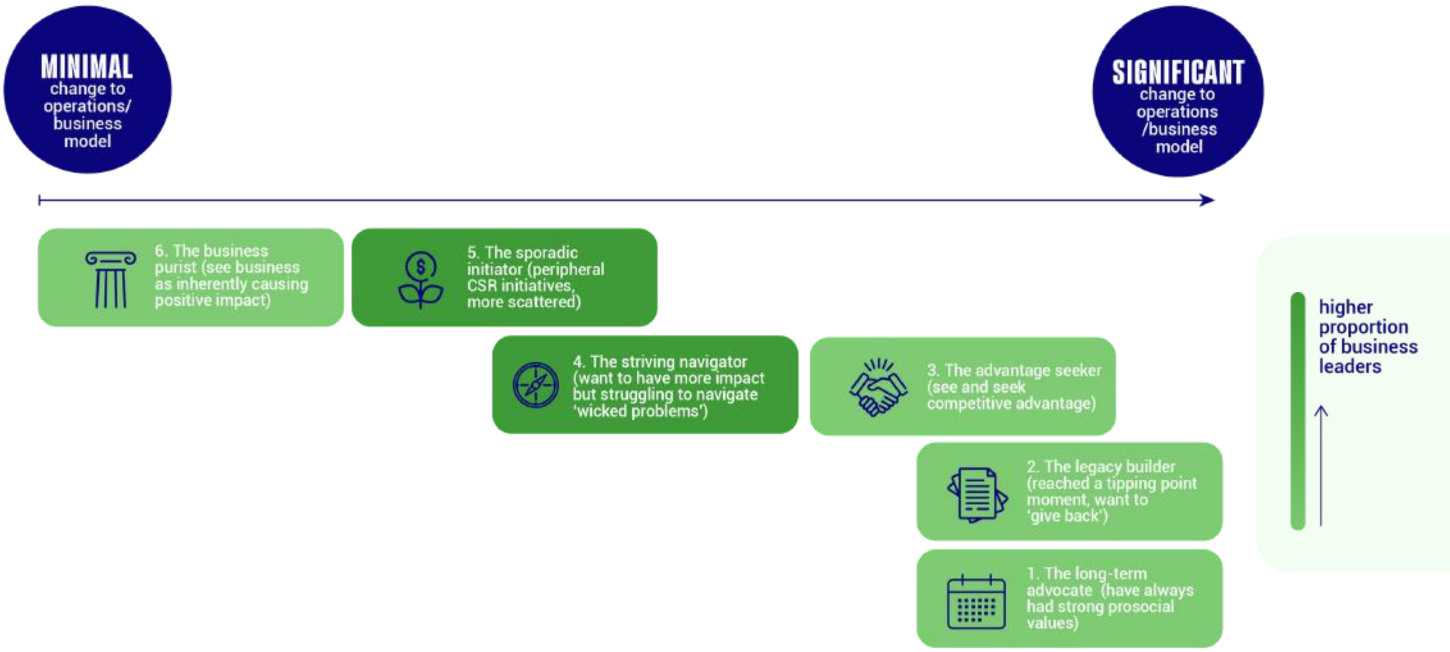
The difficulty of building personal relationship with shareholders **reduces the ability of CEOs to influence them.**

"If you want to know what the shareholders want in a public company, it is what the market wants." **- CEO, Germany**

"In a listed company the shares go up and down and it might have nothing to do with you. The distance between stakeholders and the leaders means shareholders can lose contact with reality. They need to satisfy the drumbeat of quarterly earnings." **- Expert**

BEHAVIOURAL PROFILES

INDIVIDUAL CEO MINDSETS



How do the individual beliefs and mindsets of CEOs impact businesses? Are there 'types' of CEOs?

This research identified **6 CEO mindsets**, as plotted along the scale of change they are able and willing to make to operations/their business model (see full list of indicators in appendix page 44).

"There is a large peloton of companies following these leaders. They may not have it in the heart but they know that societal expectations are changing and they are trying to retain talent, they need a better story t tell."

- Expert

Each CEO mindset has been outlined below, with associated **barriers and drivers which are strongest for this mindset.**

The majority of business leaders span 'The sporadic initiator' and 'The struggling navigator' mindsets.

6. The business purist

Business leaders with a 'business purist' mindset believe that **free and fair market businesses have an inherently positive impact** on society and therefore do not undertake a distinct strategy for impact.

These CEOs believe that businesses who aren't having a positive impact on society are the minority and not representative of the purest form of business.

Some with this mindset may also believe in division of responsibility, whereby **businesses contribute tax** while the **state manages environmental and societal issues**.

"Profits is the gift you get in exchange for the service... Business is and should be a win-win exchange." ***- CEO, France***

"We pay our taxes properly, don't have money in Cayman Islands. We trust money going into a well functioning system." **- CEO, France**

Heavy criticism and 'purpose shaming' in public discourse/perception

Existing and anticipated regulations

5. The sporadic initiator

CEOs with a 'sporadic initiator' mindset tend to believe their **current activities are having a significant positive impact** (e.g. sponsorships, donations, staff activity days), and are proud to promote their initiatives. These initiatives are often **peripheral** to core strategy/operations and are more likely to come from a dedicated CSR or marketing budget. Initiatives may be ad hoc, diverse, or a long-standing historical activity which is infrequently reviewed.

Lack of urgency/impetus to change from consumers and uncertain regulation

Semantic complexity + diverse and unreliable metrics

Attraction, retention & engagement of talent

Growing pressure from investors / financial institutions

4. The striving navigator

Business leaders with the 'striving navigator's' mindset believe in the need to transform their operations, but are **struggling to match this intent with equivalent action** (primarily due to the nature of 'wicked problems' they are facing).

CEOs with this mindset are beginning to reconcile **and consolidate previously sporadic or non-strategic CSR initiatives** with a strategic lens (aligning capabilities with stakeholder needs).

They tend to have internal and external stakeholders at **different degrees of readiness to change.**

"I'm not always a first mover, but I'm a fast follower." **- CEO, Germany**

"Lack of knowledge is a real issue, I feel I know how to run a business, but feel less equipped to set the direction or figure out what a 10/10 looks like in the CSR agenda." **- CEO, UK**

Heavy criticism and 'purpose shaming' in public discourse/perception

Lived experience of complexity, tackling 'wicked problems'

Attraction, retention & engagement of talent

Perceived change in cultural values

3. The advantage seeker

CEOs with an 'advantage seeker' mindset are **proactive and energised**. They have a sense of **urgency** to seize a first mover advantage and see an opportunity for profit in sustainable business transformation.

With this mindset, sustainability and social impact initiatives are **discussed at the highest level of the organisation** in the context of strategy and innovation.

These individuals tend to **invest in innovation** and strategic acquisitions ahead of regulatory requirements.

Critical threats to business operations

2. The legacy builder

The 'legacy builder' mindset is used to refer to business leaders who have had a successful career and feel **a sense of achievement.** They then reach a personal 'tipping point', where they are looking for something **new or meaningful and a way to give back to society.**

(illness) or social (global or national disasters).

Many have an **increased awareness or experience of crises** in the world, whether individual (e.g. such as death, illness) or social (global or national disasters).

"When I had arrived at the point professionally and personally, I realised I could have impact, and I ask how am I going to realise this? When you are younger you don't have as many capabilities."
- CEO, Germany

Perceived change in cultural values

1. The long-term advocate

CEOs with the 'long term advocate' mindset have always identified as an advocate for sustainability or social issues, having held **strong prosocial values** from an early age.

Capability vacuum / lack of government action (perceived)

Their personal and corporate role and beliefs are aligned, and they will move to a new company if values are not aligned or there is limited ability to have an impact.

"I see myself as a politician, I've always seen businesses as a public space - they therefore must have positive impact on society."
- CEO, France

CONCLUSIONS

REFLECTIONS AND NEXT STEPS

This study has helped to shape clear behavioural profiles of senior business leaders driving sustainable business transformation. Understanding the intrinsic drivers and barriers of each profile invites us not to consider leaders' engagement towards sustainability as a linear path, where we would expect leaders to move from one behaviour profile to the next. It calls for a greater understanding of each CEO's mindset to help them close their action/intention gap in ways that match the specificities of their industry and their cultural values.

Sustainable business transformation is as complex as it is critical. We should therefore explore which mix of strategies would be most effective to put the topic on top of Board members' agendas and move ahead :

- Turn the most advanced leaders from advocates to advisors of striving navigators.
- Build coalitions of CEOs at the industry or country level to alleviate systemic barriers to transformation.
- Work at investor, shareholder & stakeholder level to secure their commitment and support towards executive & management teams that are ready or hesitating to start their sustainable business transformation journey.
- Propose regulations (e.g., the EU Green Taxonomy) and secure implementation from policy makers in order to build legal incentives across countries for boards to accelerate their transformation.

The research suggests that the context within which businesses are operating (regulation, competition, cultural values) is evolving quickly. Ongoing monitoring of policies and in-depth conversations with Senior leaders will be key to give an up-to-date picture of the situation.

The Business for Impact observatory will deepen its research by weighing the drivers and barriers of each behavioural profile using behavioural indicators (see next page) and specificities by sectors and countries.

The index will monitor the evolution of policies in the OECD, allowing us to observe which levers were most effective and to what extent regulation positively accelerates business transformation.

We see this research as part of an ongoing effort to understand the levers of sustainable business transformation and invite feedback, discussion, and collaboration.

Please contact us to continue the conversation.

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APPENDIX

INDICATORS FOR DEGREE OF CHANGE TOWARD SUSTAINABLE BUSINESS TRANSFORMATION

The below indicators, identified during the research, were used to define the degree of change toward sustainable business transformation (change to operations/business model in order to have positive social and environmental impact).

Indicators of minimal change to operations/business model (peripheral)	Indicators of significant change to operations/business model
Strategy: • More likely to have multiple CSR initiatives that are not necessarily aligned under a single strategy • More likely to have long-standing CSR initiatives that have not been reviewed recently (last 2 or 3 years) • May have a brand purpose and manifesto but does not include detail - strategies, investment, initiatives, metrics etc. **Resources:** • Budget for environmental and social initiatives come from CSR or Corporate Relations/Marketing /PR **Targets & initiatives:** • Less likely to have specific targets/metrics for initiatives • Goals are more likely set to be achievable than ambitious • More likely to have donations to charity make up a significant proportion of activity • More likely to have staff volunteer days and staff donation matching	**Strategy:** • Have a formal roadmap or blueprint for ESG/CSR activity over the next 2+ years • ESG / CSR related topics discussed in many high-level meetings • Have reviewed, consolidated and aligned various CSR activities • CEO and other C-suite are engaged in social and environmental impact strategy • Social impact / sustainability discussion occurring at all levels and departments of business (not just CSR) • Have a group level Chief Sustainability Officer (for companies who have multiple divisions/brands) **Resources:** • Have the most senior and experienced staff contributing to CSR strategies • Deploys experienced organisational talent to the issue - use the best talent on CSR activities • Pay for outside experts for internal training on social and environmental issues • Investing ahead of regulation **Targets & initiatives:** • Provide or pursue scope 3 reporting • Have developed bespoke company-specific metrics to measure the social and environmental impact • Have consulted outside experts to develop specific ESG targets • Know we could be doing more / have a long way to go • Performance targets and bonuses with ESG component • Intend for initiatives to scale

Ashoka is the world's largest network of social entrepreneurs, identified by Forbes in the Top 5 of most innovative and impactful social organisations. Via its program **Changemaker Companies**, in partnership with Consulting advisory Ylios, the NGO partners with pioneer companies in their industry, willing to integrate impact into their core business for the good of all.

changemaker-companies.org/

Business for Impact is an observatory launched by **Changemaker Companies** in partnership with a community of key sustainable business transformation players to provide clarity on where business leaders & policy makers stand regarding sustainable business transformation and nurture constructive debates among C-suite circles to move sustainability from peripheral to core strategy.

changemaker-companies.org/observatory

ap² is a qualitative research and behaviour change consultancy - combining the latest thinking from anthropology and psychology to exponentially power deeper insights into human behaviour, and change it for the better.

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