SUMMARY

From Attitude to Action

How Germany's CEOs Drive Sustainability

A summary of a study by FUTURIST, PIK und Bain & Company

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About the Publishing Institutions

FUTURIST
Institute for Sustainable Transformation

FUTURIST specializes in sustainable transformation, creating and conveying knowledge to help organizations, industries, and value chains to move toward sustainability. The institute was initiated by the Values Foundation (a non-profit organization), the innovation platform FUTURY, and the international business school ESMT Berlin. Only the Values Foundation and FUTURY were involved in the present study.
www.futurist.berlin

PIK

The **Potsdam Institute for Climate Impact Research** is a leading and globally renowned institute specializing in climate impact research for global sustainability. With more than 350 employees, the PIK helps expand the global scientific community's knowledge by issuing high-profile publications and engaging in numerous partnerships and networks.
www.pik-potsdam.de

BAIN & COMPANY

Bain & Company is a global consultancy that helps the world's most ambitious change makers define the future. Across 63 offices in 38 countries, Bain works alongside its clients as one team with a shared ambition to achieve extraordinary results, outperform the competition and redefine industries.
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Prologue

By Johan Rockström

Prof. Dr. Johan Rockström is the Director of the Potsdam Institute for Climate Impact Research, and a professor for earth systems research at Potsdam University. Prof. Rockström gained international renown by developing the Planetary Boundaries framework, which has become standard in sustainability science.

As the year 2021 draws to a close, there is no longer any reason for doubt or hesitation. A series of super-extremes, the 6th IPCC assessment with its razor-sharp scientific messages, and the continued massive threats to biodiversity and nature have made one thing unmistakably clear: The only way to ensure prosperity and equity in this world is by creating a nature positive zero carbon world economy.

Against this background, it comes as no surprise that German business leaders have internalized the overwhelming evidence presented by science. This is one key finding of the present study: Nine out of ten CEOs taking part in the underlying survey believe that in the next five years, sustainability will be at least as important as digitalization. Another key finding refers to the changing narrative among CEOs and organizations. Companies are now starting to approach sustainability as a strategy to maintain their license to operate, add value for society, and unlock new business opportunities. The key here is that economic development takes place within the secure framework of planetary boundaries.

The shift is not friction-free, though. The world is still dominated by huge market failures, with disincentives that still make it profitable to pollute, degrade, and destabilize the climate and biosphere.

One critical step to resolve this is to drive science-aligned policy measures that provide a solid framework for business. In order to follow a sustainable transformation pathway, companies need science-based targets – not only for carbon but also for other planetary boundaries, in particular water, biodiversity, nutrients, and land.

Yes, the challenges are immense. But so are the opportunities. We are currently in a phase of acceleration, as we are only just recognizing the urgency. The remaining global carbon budget to stay within the 1.5°C limit will take us through this decade at best (at current emission levels). We need to react now, across all sectors and levels, and jointly work towards a prosperous and equitable future for humanity on earth.

Executive Summary

How Germany's CEOs drive sustainability

- **Change in priorities: Nine out of ten top leaders believe that over the next five years, sustainability will be at least as important as digitalization.** Almost fifty percent think it will be even more important. Ambitions on the pathway to sustainability include everything from securing the license to operate to capturing emerging opportunities.

- With climate neutrality as the overriding goal, **the companies surveyed will need another 14 years on average to get their CO2 emissions down to net-zero.** The required transformation will involve a series of trade-offs, CEOs say. Six out of ten respondents still consider sustainability and profitability to be opposing goals.

- **Every second executive thinks that in the upcoming transformation, companies are driven by exogenous factors,** such as a demanding public, tight regulation, and technological progress. Major barriers, CEOs say, include customer ambivalence, investors' short-term focus, and sluggish organizations.

- **Individual companies' transformation paths will largely depend on the industry and the business model.** These factors determine the complexity of transformation, as well as the degree of dependency on upstream and downstream value creation stages, social and political framework conditions, investors and other stakeholders. To master the changes ahead, companies hold their suppliers accountable, work side by side with them to create sustainable solutions, and even assist their business partners in their transformations.

- With a view to the upcoming transformation, top managers expect to be in four roles: driver, communicator, orchestrator, and warner. **More and more CEOs are taking formal or actual responsibility for their companies' sustainability.** Increasingly, related targets are incorporated in management compensation systems.

- **CEOs are not satisfied with the progress so far achieved in transforming their companies.** On a scale from 1 to 10 (not at all satisfied – completely satisfied) they give their organizations 7.1 points on average for their sustainability attitude. With regards to their actions, the average rating is only 5.6.

- **A clear attitude and resolute action will be essential to get on the track for sustainability. 10 steps can help to ensure a systematic transformation.** Above all, these steps include a clear definition of ambitious and measurable goals, the rigorous incorporation of the company's sustainability strategy in its financial steering system, and a cultural change to align employee behavior and corporate governance with sustainability goals. In addition, senior managers themselves are required to set an example and inspire passion for these goals in their organizations.

INTERVIEW PARTNERS

Talking with top German business leaders

Organizations' stance on sustainability, actions already taken, and personal attitudes towards the ongoing transformation of the economy were the key topics addressed in more than 20 in-depth interviews we conducted with senior executives in the spring and summer of 2021. Their answers provided inspiring and often surprising insights into the thoughts and actions of leading companies in Germany – which formed the basis for the present study.

The authors would like to take this opportunity to sincerely thank all interview partners for their time and candor.

mainova

Dr. Constantin Alsheimer
CEO

VONOVIA

Rolf Buch
CEO

Henkel

Dr. Simone Bagel-Trah
Chairwoman Superv. Board

GOLDBECK

Jan-Hendrik Goldbeck
Managing Director

otto group

Alexander Birken
CEO

Lufthansa

Harry Hohmeister
Executive Board Member

BASF
We create chemistry

Dr. Martin Brudermüller
CEO

T · ·

Timotheus Höttges
CEO

Berthold Huber
Management Board Member

Christian Sewing
CEO

Ola Källenius
CEO

Astrid Teckentrup
CEO DACH

Dr. Markus Krebber
CEO

Dr. Theodor Weimer
CEO

Martina Merz
CEO

Dr. Joachim Wenning
CEO

Klaus Rosenfeld
CEO

Judith Wiese
Management Board Member

Frank Schumann
CEO

Additional confidential background talks with further CEOs and CSOs complemented the study.

Attitude

Sustainability First

"The only way to ensure prosperity and equity in this world is by creating a nature positive zero carbon world economy." In his foreword, Johan Rockström aptly sums up the scale of the challenge for global business. The message has been heard – and understood – by Germany's top leaders. This became very clear in our more than 20 talks with CEOs and board members, which formed the basis for this study:

- Nine out of ten believe that over the next five years, sustainability will be at least as important as the topic most discussed so far, digitalization.
- Almost fifty percent think sustainability will be even more important than the ongoing digital revolution – priorities have shifted.
- Fifty percent of decision-makers feel that companies are not only drivers of the upcoming transformation but also driven: Growing pressure from customers and employees, investors and thought leaders having palpable effects.
- Also, the upcoming transformation will inevitably involve trade-offs. Six out of ten leaders still believe profitability and sustainability to be conflicting goals.

Over the longer term, however, such antagonisms will fade. All top leaders feel that in the mid- to long term, their organizations will have to undergo fundamental changes and reconcile economic, ecological, and social goals.

AMBITIONS

Focus on short-term survival – or take the lead

Against this backdrop, a shared self-image has emerged across industries and companies. The business world considers itself an important and active part of society and wishes to “take responsibility” and “make a contribution.” This self-image translates into a vast range of different ambitions at each company, which are pursued sequentially or simultaneously. At the top of the list is usually the company’s survival and safeguarding previous achievements. Building on that basis, companies strive to take the lead and to also to help third parties achieve sustainability.

Surviving: Sustainability ensures future viability

If the future is in sustainable business models, clinging to traditional structures is a threat to companies’ existence. Companies are aware they need to change fundamentally, if they want to retain their good standing with customers and other key stakeholders. Deutsche Bank CEO Christian Sewing explains: “Sustainability is something we need to do just to keep our license to do business.” In his view, industry players who refuse to acknowledge that fact are likely to lose large parts of their profits over the next few years.

Securing: Keep up the company’s economic success

Closely related to the “survival” theme is the second ambition: safeguarding the economic success so far achieved. Companies with a good sustainability performance, according to the general opinion, will continue to be successful. Siemens board member Judith Wiese says: “At Siemens, we believe that sustainability is a key future growth driver. Political, societal, and economic incentives to cut down emissions and modernize existing infrastructures create new markets and customers who are willing to invest in the future.” Constantin Alsheimer, the CEO of the utility company Mainova, expresses a similar thought: “Only sustainable action will allow us to continue our 200-year company tradition successfully.”

Empowering: Support customers with their transformations

Companies’ commitment to sustainability doesn’t end at their doorsteps. As mentioned before, they want to support the transformation to a sustainable economy and society, also beyond the boundaries of their own business. The majority focuses on their specific customer base, as exemplified by Munich Re CEO Joachim Wenning: “It is our ambition to support sustainable development by making it insurable. If we didn’t, individuals and companies would have to take on those risks on their own, which isn’t possible in every single case.”

Leading:
Provide compelling and innovative solutions

For many companies, it is a major ambition to be among the sustainability leaders. Often, they focus on both the inside and the outside of their organization. “We strive to be at the top of this movement,” says Berthold Huber, VP Passenger Transport at Deutsche Bahn. “Sustainability is at the heart of Deutsche Bahn’s business. We are the most sustainable transportation provider, and we intend to keep it that way.” The Daimler group puts the emphasis on employee innovativeness, as CEO Ola Källenius explains: “At the end of the day, the question as to how we can become climate-neutral will land not only on politicians’ and NGOs’ desks, but also on those of our engineers. It is, above all, an engineering task. It can be solved. And we will solve it.”

GOALS

Climate neutrality at the top of the agenda

Diverse as these ambitions may be, the goal is the same. All companies in our analysis are pursuing the explicit goal of becoming ecologically, economically and socially sustainable. One goal overrides all the rest: climate neutrality. It governs a whole series of other topics from diversity to resource efficiency, from operational safety to economical water use.

SUSTAINABILITY TARGETS

E overrides S and G

E **Environment**	S **Social**	G **Governance**
Climate neutrality **Greater energy efficiency** **Waste avoidance** **Reduction of plastic use** **Resourse management** **Shift to renewables** **Protection of biodiversity**	Fewer work accidents Observance of human rights along the supply chain Fair wages Health protection	Greater share of women in leadership positions Transparency Diversity Anti-corruption measures

Climate neutrality: The new guiding star

Germany's major corporations are out to reduce their carbon footprint to net-zero. On average, the respondents in our survey will need another 14 years (or until 2035) to reach that goal just for their own operations (scopes 1 and 2). Just below fifty percent will complete their decarbonization by 2030 – or have already reached net-zero. One quarter will take until the end of the next decade, another quarter until 2050.

There is a growing general willingness to broaden the concept of climate neutrality. In recent years, many companies focused on scopes 1 and 2, which means reducing their own direct and indirect greenhouse gas emissions. Now, the entire value chain (scope 3) is moving into focus. Schaeffler CEO Klaus Rosenfeld describes the challenging path to a clear-cut scope 3 target: "You need a much deeper understanding of your products' life cycles and service lives to determine a feasible date." The climate neutrality goal, he adds, is the "guiding star." In approaching it, his company – like other businesses – is driving the use of renewable energy. By 2027, on average, companies want to be finished shifting their power supply to 100-percent renewables.

For most of them, the key approaches to achieve this transformation include enhanced energy efficiency as well as carbon compensation, i.e. the option to achieve net-zero by supporting green projects (such as reforestation) and obtain related certificates. In practice, we see three perspectives on this. In industries like aviation, compensation will be inevitable for companies due to their inherent business model. In other sectors, business models may allow players to view compensation payments as a last resort. Finally, there is a field in between where companies will base their individual decisions on the compensation model. One of them is Deutsche Börse. As CEO Theodor Weimer points out: "We're going to reduce our carbon footprint by 50 percent this year. By 2023, we intend to accomplish another 20 percent by purchasing gold-standard certificates. It is very important to me that we stay clear of anything remotely close to trading in 'indulgences'. That isn't an option for us."

GOVERNANCE

CEOs take responsibility, sustainable organizations emerge

To make ambitions and goals a reality, companies need a powerful organization and accountability structure for implementing the changes. In many places, these are still in the process of being erected or adapted. The same is true for responsibilities. Historically, the topic of sustainability was usually a responsibility of corporate communications, located one or two levels below the board. Now, more and more CEOs are personally taking on formal or actual responsibility.

In organizing sustainability-related activities, companies pursue three approaches: Some maintain a central sustainability department or function; others have installed a sustainability committee or council that coordinates sustainability initiatives across divisions; a third group of companies have complex structures that stretch across several entities. In the sample for this study, the ratio of vertical models (department, function) to horizontal ones (committee, council) was 50:50. Both obviously work in practice, as do mixed forms.

Compensation: Financial incentives for enhanced sustainability

The majority of employees are intrinsically motivated and put their hearts and souls into sustainability initiatives – so much is evident not only from the examples mentioned above. Financial incentives can add to the general motivation. Among board members, financial incentive systems are often particularly sophisticated; many companies have long incorporated sustainability indicators in board members' variable compensation.

As a logical next step, they are now starting to incorporate such indicators in other compensation schemes as well. In the process, they need to find answers to three key questions:

- What groups of people should be included? While this approach is currently often limited to management boards, it would make sense to extend it to one or two levels below.
- How large should the share of total compensation be? So far, sustainability indicators determine only a part of managers' compensation.
- How can sustainability performance be measured? As this question also comes up when setting and operationalizing sustainability targets, compensation is usually linked to the parameters defined there.

Among the leaders who have found answers is Timotheus Höttges, CEO at Deutsche Telekom. With his own compensation already linked to the fulfillment of ESG targets, he is now envisaging the next move. “As a second step, we intend to establish this compensation system across the entire organization, for all 2,000 management positions even globally.”

BASIC ATTITUDES

From proactive and shaping to reactive and responsible

As previously outlined, German businesses focus on sustainability. The issue has moved to the top of every management agenda. Looking at the overall picture, three basic attitudes emerge which are determined by industry dynamics, the relevant regulation, and each company's business model and core skills. Depending on the individual situation, it can make strategic sense for companies to be proactive and shape developments – or to be reactive and demonstrate a sense of responsibility.

- **Proactive and shaping.** "We are building a sustainable future" could be the motto driving these companies' actions. They are out to change both themselves and their environment, unwilling to wait for others to follow suit or for perfect conditions to materialize. They consider themselves forerunners on the way to a better future and attach particular importance to impact. Consequently, these companies set themselves challenging goals and build a powerful organization to achieve them.

- **Actively engaged.** These companies are also seriously committed to sustainability. Their attitude is "We'll do our absolute best," and they are eager to turn their insights into action. It is a matter of course for them to get active, even beyond the boundaries of their own organization.

- **Reactive and responsible.** Companies with this attitude tend to maintain a reactive stance: "We'll do what we're expected to do" could be their motto. While they are diligent in dealing with the issue of sustainability, they radiate less commitment and creative drive than others. Their emphasis is confined to securing their own success and taking responsibility for their immediate environment – nothing more.

Action

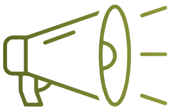
A Challenging Endeavour

Germany's companies are facing some challenging years. With a view to the goals defined by both themselves and the regulator, they will need to develop their products, processes and business models to satisfy the standards for environmentally sustainable operations. This transformation is a mammoth task in more than one way: Realigning business models will be extremely complex and prone to disruptions, as traditional revenue sources are drying out and most companies have only limited experience with new, "clean" business models. Also, there is an enormous degree of uncertainty, costs are immense, and decarbonization requires plenty of perseverance.

ENVIRONMENT

What drives transformation – and what gets in the way

To succeed with this mammoth task, companies will need to consider the interests of key stakeholders, which is a juggling act in itself. From more than 20 conversations with top leaders, we were able to distill five key drivers and five roadblocks. Depending on their current interests, some stakeholders may act as both drivers and roadblocks at the same time.



Driver #1: A demanding public

Over the past years, movements such as Fridays for Future have made constant headlines. But that isn't all: Many other civil-society actors are voicing specific demands to business and society – from people and groups in the sciences, politics, and NGOs all the way to each and every individual in their role as consumers, employees, tax payers, and voters. Jan-Hendrik Goldbeck, Managing Director at the construction group that bears his name, freely admits that the Fridays for Future movement gets on his nerves sometimes with "the way they act and how they make nonreflective demands" – to then add, "I'm extremely glad that the movement exists and that it has lent a lot of weight to the issue of sustainability. This was the impetus society needed to take the matter more seriously. It has forced us to think and act."

Driver #2: Regulatory pressure

With regulatory pressures increasing, companies don't have much choice but to drive forward their sustainability strategies with maximum determination. Recent examples include the "Fit for 55" legislative package to implement the European Green Deal, the EU taxonomy to classify sustainable financial products, and the German Supply Chain Act.

Driver #3: Impatient investors

According to a Bain study, almost 80 percent of investors pay more attention to sustainability these days than they did five years ago. The pressure from institutional investors is palpable to Germany's CEOs, says Rolf Buch, the CEO of real estate giant Vonovia: "Shareholders' priorities are clearly shifting. These days, investors show much greater interest in sustainability, specifically climate protection."

Driver #4: Committed employees

Sustainability demands also come from within the companies themselves. More and more employees expect their employer to make their business more sustainable – in particular younger staff and applicants for job openings. Senior leaders confirm this notion. As Lufthansa board member Harry Hohmeister puts it: “Lots of Lufthansa people, especially younger ones, bring in their own sustainability ideas. In recruiting, the subject is also gaining importance.”

Driver #5: Technological progress

Technological progress is playing into companies’ hands. Over the past few years, they have developed numerous alternatives to existing technologies that now help accelerate the ongoing transformation. Others will follow, says thyssenkrupp CEO Martina Merz: “We may not have all the technical solutions yet, but I’m optimistic that people will discover them. The way I see it, this is the point where we are building an innovation ecosystem on our way to the climate targets.”

Roadblock #1: Ambivalent customers

Customers play an ambivalent role. On the one hand, they increasingly demand sustainable products and services. On the other, they often choose less sustainable options, often but not always for cost reasons. As Otto Group CEO Alexander Birken observes: “Consumers’ sustainability awareness is growing, yet we are seeing a widening gap between this awareness and actual customer behavior.”

Roadblock #2: Shareholders’ short-term focus

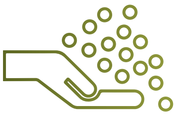
Much like customers, the capital market is also ambivalent. On the one hand, it demands that companies act more sustainably. On the other hand, it obstructs part of that change by penalizing even short-term dents in profitability. Exceptions include a number of family businesses, where owners are often willing to reward investments in sustainability.

Roadblock #3: Difficult regulatory and political conditions

In day-to-day business, companies often have to deal with political and regulatory conditions that hamper the necessary transformation. Other obstacles include infrastructural deficiencies that can slow down, raise the cost of, or prevent transformation. As RWE CEO Markus Krebber explains: "Our public authorities need better resources, a higher level of standardization, and faster workflows. At present, we are looking at up to seven years from the original idea to the completion of an on-shore wind park in Germany – in Texas, it's two years."

Roadblock #4: A sluggish organization

The shift to more sustainability is an endurance test for every organization. Traditional processes and systems can slow down change; so can employees' resistance to change. BASF CEO Martin Brudermüller outlines possible reasons: "People like to keep repeating what they know how to do and what has proven to work. That's what makes it so difficult to accelerate the pace. We need a shift in mentality, not only in our organization but in our whole ecosystem, in supply chains and partner companies."



Roadblock #5: Scarce resources

Every transformation requires its own specific resources – from preliminary products and locations to expertise and funds. A lack of such resources can delay or even prevent the necessary change. One example is the transformation of the energy sector, where there is a lack of land to build all the direly needed renewable-energy plants, which could already be profitable.

PROFITABILITY

A Balancing Act between Ecology and Economy

With the different stakeholders' interests rife with conflict, the resulting fundamental trade-off is tough. Companies need to find a new balance between traditional profitability criteria and the goal of becoming more sustainable. Just over half of the executives in our study perceive profitability and sustainability to be opposing goals; the other half has abandoned that view.

A closer look at top decision-makers' statements reveals that there is still some skepticism, in particular a short-term view. In the mid- to longer term, sustainability is expected to move to the center of every business model and also to meet profitability requirements. Kaufland CEO Frank Schumann was one respondent pointing to the short-term effects: "In many areas, sustainable products are still 50 to 100 percent more expensive than comparable conventional products. For 80 to 90 percent of grocery shoppers in Germany, money is an issue. They can't afford sustainable products."

FIELD OF ACTION

Extending along the entire value chain

Companies' transformation to sustainability does not end at the boundaries of their own organizations. To achieve climate neutrality in scopes 2 and 3, for instance, managers need to look at emissions beyond their own production facilities. If the goal is to create humane working conditions, they cannot ignore what goes on in their suppliers' operations. When working on governance aspects such as corruption or political interference, they need to include all their business partners around the globe.

Consumer goods giant Henkel is one example of how companies deal with CO_2 emissions. Simone Bagel-Trah, the Chairwoman of Henkel's Supervisory Board, says: "We calculated our carbon footprint, and that was an eye opener. Of the total production at our global sites, only one percent of emissions comes from Henkel." As much as 70 percent of the company's footprint results from the use of its products, Bagel-Trah explains. "If we manage to influence consumers' attitudes and change their behavior, we have plenty of carbon savings potential."

In practice, there are three approaches (often used simultaneously) to achieve supply chain sustainability:

1. **Hold suppliers accountable.** In some industries, companies define and monitor specific sustainability targets. Also, the carbon footprint and other sustainability aspects are used as a criterion for listing suppliers and awarding contracts.

2. **Jointly work on sustainable solutions.** Manufacturers in many industries have long maintained close-knit networks with their suppliers. It is therefore a logical next step to build shared capabilities and capacities for the upcoming transformation and analyze jointly how products and processes can best be adjusted.

3. **Assist partners with their transformations.** Some companies take this a step further: In addition to jointly working on sustainable products and processes, they assist suppliers (and even the suppliers' other customers) in making their business more sustainable. They transfer knowledge, provide tools, and introduce specific incentives.

Procter & Gamble is one of the companies that are pursuing the third approach, as Astrid Teckentrup, CEO Germany, Austria & Switzerland, points out. "Our scientists have outstanding expertise in the scientific assessment of materials, and we share that knowledge with suppliers. We get very positive feedback for our open innovation ecosystem. We consider collaborative development with our suppliers to be a cornerstone of future sustainability."

FOUR TRANSFORMATION PATHS

On Track to Becoming a Sustainable Company

The ongoing transformation towards greater sustainability is highly demanding for every company. To master this mammoth task, four typical transformation pathways have emerged which differ in their degree of complexity and dependency on external factors. They can be described using four sports metaphors.

➤ **Marathon:** These companies face a lengthy transformation process. However, they are fortunate enough to be in a position to drive that process more or less on their own, and to have a good idea of where the finish line is. Examples can be found in the information and communication industry.

➤ **Triathlon:** Companies on this path face a much higher level of complexity, which can entail both the skills required and the number of relevant subject areas. Still, they can manage most of the transformation on their own. Triathletes include various players in the automotive and engineering industries as well as in banking and insurance.

➤ **Team marathon:** For companies on this transformation path, success depends on the cooperation of other stakeholders. All involved must reach the goal together. There is only a limited degree of complexity. Typical examples can be found in the agricultural sector, consumer goods and retail sector.

TRANSFORMATION PATHS

From marathon to team triathlon

Complexity of transformation

Triathlon	Team triathlon
• Challenging path with difficult trade-offs • Transformation achievable independently (or in coordination with key stakeholders) • Necessary steps not always obvious; additional skills and possible new business model needed	• Most challenging path: highly complex transformation, strong dependence on others • Pace of transformation largely depending on key stakeholders • New business models, products, processes, skills and technologies required
Marathon	**Team marathon**
• Long way to go, but no unsolvable trade-offs • Most of transformation achievable indepen-dently (or in coordination with key stakeholders) • Necessary steps obvious; required skills and technologies available	• Challenging path with difficult trade-offs • Transformation achievable independently (or in coordination with key stakeholders) • Necessary steps not always obvious; additional skills and possible new business model needed

Dependence on external factors

➤ **Team triathlon:** This is the supreme discipline of change: Companies face a highly complex transformation, in which success depends on the contributions from other stakeholders. What's more, each team member will have to cross the finish line in all parts. Companies competing in the team triathlon are often in the energy, steel and chemical industries as well as in aviation.

Agents

How CEOs tackle the challenge

In questions of sustainability, all employees must contribute their share. All of them can change some aspects of their behavior; all of them can strive to pay more attention to ecological, social, and ethical aspects. What they need are clear directions. That is the executives board's responsibility: CEOs and their fellow board members need to make decisions, communicate expectations, allocate resources and, ideally, be role models for the company's stance on sustainability.

Drivers, communicators, orchestrators, and warners: These are the four key roles that top managers see for themselves in the transformation process. Most of them are keenly aware that they will need to play some or all of those roles at once.

CEOs as drivers

“As an executive board member, I am always in a driving role,” says Daimler CEO Ola Källenius, adding that he moved the sustainability issue closer and closer to the center of the company’s strategy. A process like that is never friction-free, as BASF-CEO Martin Brudermüller explains tongue-in-cheek: “At the beginning, I had to chase a few people to some degree. It’s part of my role that I can get on everyone’s nerves, and I have enough energy to stay on the ball. Meanwhile, many of my colleagues have understood the urgency and are driving matters ahead on their own.”

CEOs as communicators

Many CEOs perceive their role to include that they explain new developments to their people, creating transparency on targets, measures, and progress made. One of them is Alexander Birken, the CEO of Otto Group: “I talk about sustainability at many meetings and video calls. But longer-term, sustainability should increasingly be driven from within the organization, rather than by individuals.”

CEOs as orchestrators

Motivate, convince, build trust – and listen: That, too, is part of leaders’ perception of their own role in the transformation process towards sustainability. Schaeffler CEO Klaus Rosenfeld, a passionate musician himself, uses a fitting metaphor: “Successful transformation requires that you’re able to listen. I see my role as that of an orchestrator – not someone who explains things, then takes the lead. You need to get people on board.” That, Mr. Rosenfeld adds, refers not only to the management team but also to the entire workforce and other stakeholders.

CEOs as warners

Outside the organization, many top decision-makers feel they have a responsibility to warn policymakers and the public against developments they consider unfavorable. One of them is Deutsche Bank CEO Christian Sewing, who calls for a “healthy transformation.” Companies need time, he explains, to adapt their processes while considering the interests of all parties involved – otherwise there is a risk that advances in ecological transformation will come at a social cost. As Sewing puts it: “In current debates I am missing an integrated perspective. Our goal is decarbonization, but we can’t risk deindustrialization.”

RESULTS

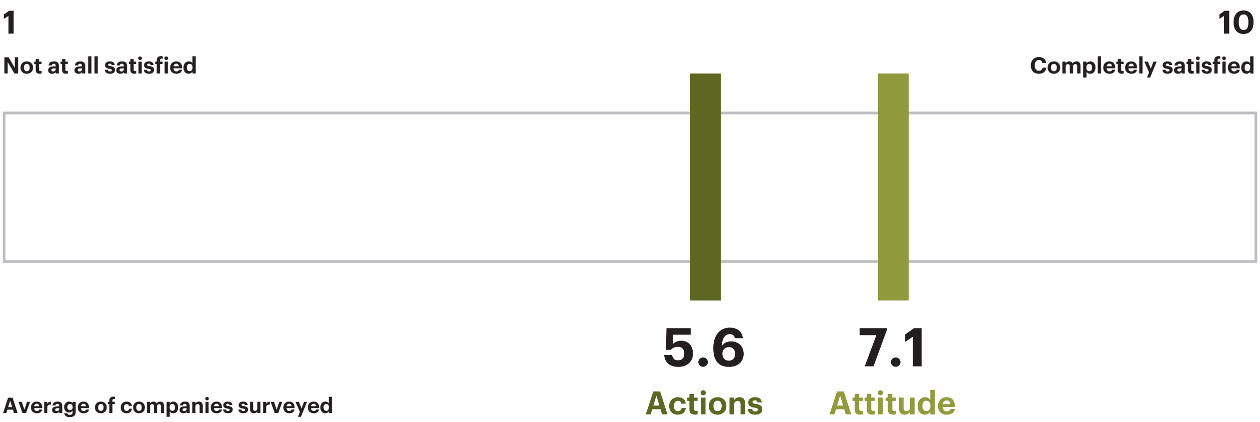
Attitude Satisfactory, Actions with Upside Potential

Germany's top leaders take a remarkably critical view of their achievements as drivers, communicators, orchestrators, and warners. The crux is not so much their organizations' attitude: in that area, they feel they have accomplished a lot. What worries them is the actions part. On a scale from 1 to 10 (not at all satisfied – completely satisfied) they rate the status quo at their organizations with regard to attitude at an average of 7.1 points. On the actions side, the average rating is "only" 5.6.

Of course, a leader's subjective satisfaction is not always a measure of the actual progress made. Some may have set their sights on the need for further changes, while others focus more on what has been achieved so far. Also, people prone to skepticism will see things differently from natural optimists.

DEGREE OF SATISFACTION WITH TRANSFORMATION PROGRESS

Attitude achieves higher ratings than actions



CHARACTERISTICS

Five leadership types

The present study represents just a small section of C-level leadership at German companies. As diverse some of the findings may be, a broader perspective reveals some recurring characteristics. In much generalized terms, five leadership types can be distinguished:

The passionate believer

“Here I stand, I can do no other” – Martin Luther’s famous words could be a motto for these CEOs. Deeply convinced of the absolute necessity of making the world more sustainable, they try to take the lead and be role models. With intrinsic motivation, great passion, and boundless energy, they drive their organizations towards greater sustainability.

Their position on the issue is well informed and extremely ambitious. They think ahead to the future, eager to set and establish standards. While they are usually happy about any progress made, overall they remain hungry and eager to achieve more. Their actions match their attitude: powerful and ambitious. They invest plenty of personal time in the transformation. As they are aware that it can only happen with a team effort, they spend a lot of time motivating, convincing, and communicating.

The optimistic opportunity seizer

Leaders of this type follow the motto “I’d rather be ahead of the curve.” They have realized how fundamentally the issue of sustainability will change the status quo, and they view fundamental changes as attractive opportunities that should be seized. These CEOs spur their organizations to top performance.

Their attitude is positive and clear: Sustainability is a must; transformation offers extensive market opportunities. As far as their own commitment is concerned, it is as strong as that of the passionate believers; their actions are just as powerful and ambitious. This group of leaders point out opportunities, instill courage, allocate resources, and get involved hands-on. In their actions, they focus on their own organizations. If the world "out there" develops favorably, all the better – but their main interest is in their own company.

The pragmatic transformation manager

CEOs in this category typically display less emotion than their passionate or optimistic counterparts: "What needs to be done will be done," could be their motto. They are well aware that their company, too, will have to move towards greater sustainability. In essence, they see the task as classical change management.

Their attitude towards sustainability is very rational, very no-nonsense. Rather than pursue grand visions, they think in terms of targets, measures, and KPIs. In implementing sustainability, they take one step at a time. More than the other two types, they delegate responsibilities and tasks. If they themselves are the best to execute a task – such as in communication, then there is no question they will do it. Their focus is clearly on their companies' operational issues.

The disengaged delegator

"I've got people to take care of this," is the typical attitude of this type of leaders: they like to delegate the transformation to others and be done with the issue. To them, sustainability is one issue out of many – and not one that they feel they have to deal with personally.

Indifferent as they are, they don't have an actual stance on sustainability. They lack personal concern and personal goals, and they feel no real interest in the subject matter. Their own actions in the sustainability area are limited to a minimum. All they do is set the frame for other people's actions. If their team asks them to make decisions or hold a speech, they will oblige – but they do not show any true initiative or stimulate others to act.

The pessimist obstructionist

This fifth group is easily described: Their motto is "No." These leaders refuse to recognize scientific evidence; they actively obstruct any kind of sustainable development in their organizations, no matter what aspect. Their stonewalling may not always be immediately visible up-front – some may simply choose to ignore unwelcome developments, or to torpedo the changes behind closed doors. In their minds, investing and allocating resources to enhance sustainability is unnecessary and will only harm the company's economic success, at least in the short term – or, more to the point: during their own tenure.

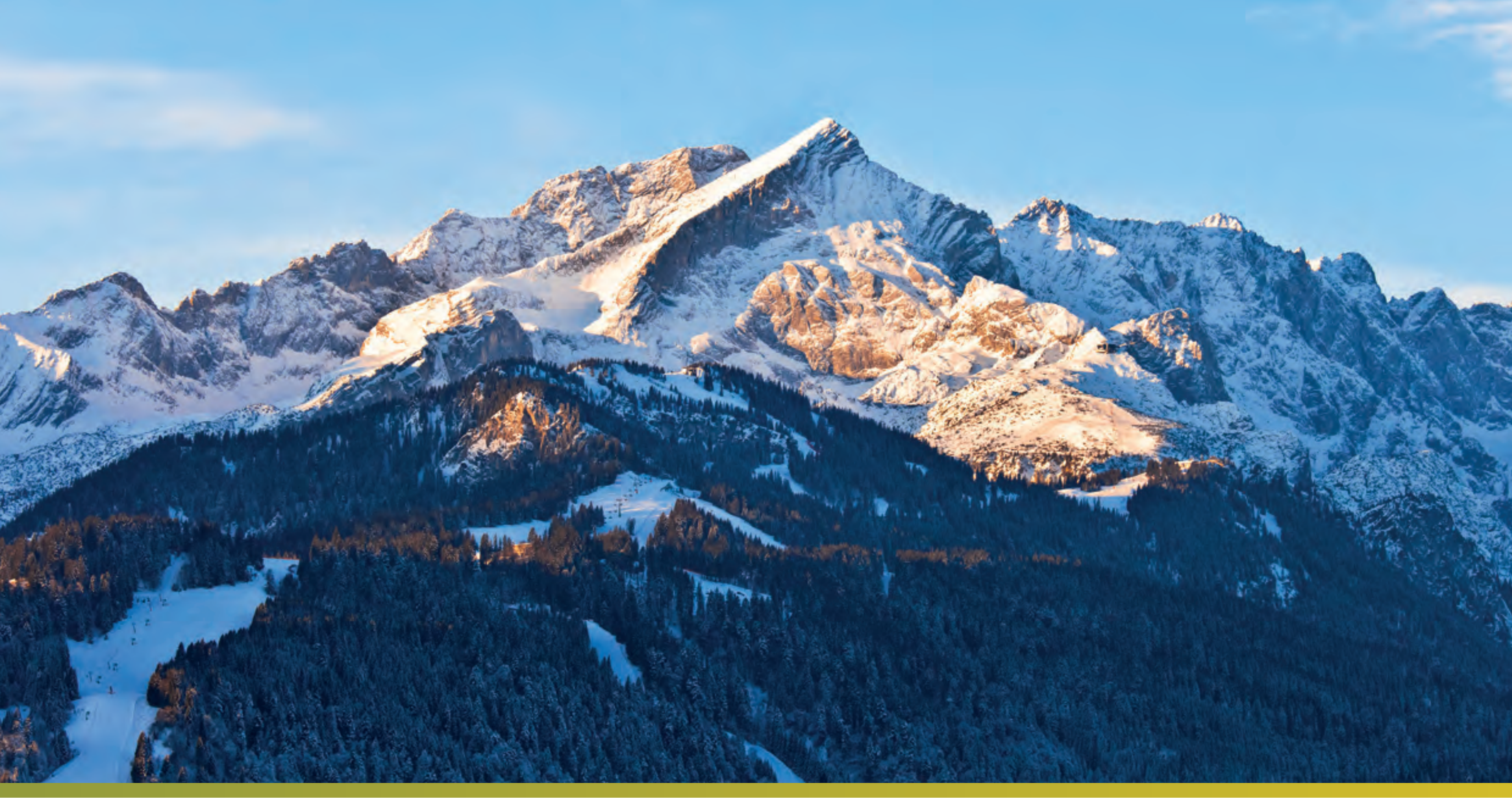
CEO PERSONAS

Transformation to sustainability: five leadership types

Passionate believer	Optimistic opportunity seizer	Pragmatic transformation manager	Disengaged delegator	Pessimist obstructionist
ATTITUDE "Here I stand, I can do no other."	**ATTITUDE** "I'd rather be ahead of the curve."	**ATTITUDE** "What needs to be done will be done."	**ATTITUDE** "I've got people to take care of this."	**ATTITUDE** "No."
ACTIONS Will do anything to make the world more sustainable	**ACTIONS** Takes comprehensive measures for the good of the company	**ACTIONS** Takes one step at a time in coordinating transformation	**ACTIONS** Delegates the whole matter to others	**ACTIONS** Actively obstructs transformation

In the long run, we need believers and opportunity seizers

Of course, a typology of this kind will always be rather broad-brush. It shows, however, that almost any conceivable attitude – except one – is justifiable and potentially useful for the company in question. It may be efficient, at least for the time being, to delegate the sustainability issue and choose other priorities for one's agenda. In cases like these, everything depends on the team: A strong team will make good use of the assignment; with a weaker team, there will be a greater risk that the much-needed transformation will fail. This also holds true for the pragmatists. Their sober perspective may be helpful in times of fundamental realignment for other issues, but in the long run, companies won't succeed without the opportunity-seizing or the passionate-believer type.



From Attitude to Action

10 Steps to Make the Transformation Happen

The German economy is facing the greatest restructuring effort it has seen in decades. What specific steps individual companies need to take will depend on the industry, transformation path, business model, and efforts made so far. That said, there is a set of recommendations for both attitude and actions that are applicable across companies and industries. They were also apparent in our conversations with Germany's top leaders.

Step 1

Conduct a comprehensive diagnostic

As in every other strategic project, everything begins with providing full transparency on the status quo – both inside the company and in comparison with its competitors. That is where the problem often starts. It is a laborious undertaking to collect the required data across all production sectors and the entire value chain. However, the diagnostic is not only about collecting facts. It also provides CEOs with an overview of the current state of sustainability in terms of goals, strategy, implementation, and governance.

Market and competitive analyses round off the diagnostic. They provide insights on where competitors stand, how they differentiate themselves in the market, and where the company's own shortcomings are. With these analyses in hand, companies should use the Today Forward and Future Back frameworks to develop scenarios on how their market will evolve over the next few years.

Step 2

Define ambitions and measurable targets

By narrowing down their ambition, companies define the role that sustainability will play for their future business model. According to a Bain study, 90% of companies worldwide expect to have to adapt their core business model, at least in part, to persist in a sustainable economy. 38% even envisage disruptive adjustments to their products, customer interactions, supply chains, or other factors.

Consequently, this step is about breaking down the company's ambition into specific targets as well as broadly communicating those targets. Targets must be understandable, measurable, realistic, and ambitious. At present, many companies don't apply the same level of analytic diligence in defining sustainability success as they would for financial success. The only way to remedy this is by applying specific measuring tools and approaches as well as setting straightforward, easy-to-understand targets.

Step 3

Merge business and sustainability strategies

For companies to truly become more sustainable, they must make the related steps as a part of their business strategy and integrate sustainability targets (including their financial components) into operational management. So far, only one in ten companies has accomplished this.

Successful integration requires two perspectives: On the one hand, it is important to maintain the "license to operate" mentioned in chapter 1, taking into consideration changed customer needs and government regulations, as well as anticipating and avoiding ESG risks to the extent possible. On the other hand, it is just as important to quickly identify and seize emerging opportunities. Three approaches can help to gain a foothold in promising markets: Companies can upgrade their portfolio with sustainable "premium" products, target new customer segments with sustainable products and services, and/or create new business models with partners.

Step 4

Sketch out entire transformation path

With strategic projects, there is always a risk that efforts fade after a while and the general reluctance to change resurfaces. It is therefore advisable to sketch out the entire trans-formation path, at least in broad outline, also taking into consideration the implications for upstream or downstream value creation stages (such as, for instance, in the chemicals or oil or gas industry). In addition to specific measures, such a plan should specify the persons responsible, contributors, major milestones, and key target figures.

Needless to say, such a plan cannot be carved in stone, as there are usually too many unknowns. Especially in highly dynamic sectors, companies will be better off sketching their transformation paths in outlined waves, then moving from wave to wave like a surfer. In any case, however, companies should always make sure to measure progress against key figures that aptly reflect their targets and ambitions, so that everyone involved will truly understand the seriousness of the task and potential obstacles will be detected early on. Another, equally important point is that all projects envisaged should be incorporated in the budgets. This ensures that appropriate resources in terms of both capital and labor will be available when needed.

Step 5

Set up an effective governance system

Rigorous implementation of a sustainability strategy requires an effective governance system to monitor, control, and follow up on target achievement and the implementation of each individual measure. This, in turn, requires appropriate structures, responsibilities, and processes. At present, the erection of these structures is still in progress at many organizations. That said, even though individual approaches differ widely, a set of success factors is crystallizing across industries. Above all, they include nominating a Chief Sustainability Officer, or Head of Sustainability, as well as establishing a cross-functional sustainability committee and ensuring success is owned by the businesses. Installing an appropriate level of local responsibility and integrating sustainability targets in the compensation system will further increase companies' success prospects.

Step 6

Gather and foster the right talent and skills

The transformation ahead will only succeed if motivated people across the entire organization own and drive the change – be it in a dedicated role, as part of their everyday tasks, or in a management position. To build a sustainability team, a multi-track approach is advisable. As in the overall transformation project, the first step will be to determine the status quo and compare it against resource requirements. Next, companies have three options: They can offer specific training to selected staff, promote knowledge about sustainable business and behavior across all divisions, and hire new talent. In practice, a combination of the three usually works best.

Step 7

Build useful partnerships

In their search for much-needed resources, companies should not stop at the boundaries of their own organizations. This is particularly true for those whose transformation pathway resembles an ultra-challenging team triathlon. The greater the complexity and the dependency on third parties, the better off companies will be by building a viable ecosystem of partners. In general, external networks are useful in various ways. These include knowledge gains, enhancing the company's portfolio of services, and forging tighter interconnections with NGOs and public and private institutions.

Step 8

Ensure transparent communication

Open and honest communications, clearly positioning the company both inside the organization and to the outside world, is essential to overcome obstacles and win advocates for the ongoing transformation. This requires communication plans with clear messages and a straightforward time schedule. The clearer the sustainability profile of the company, the easier it will be to make sustainability a part of the corporate brand. While there is currently still a gap between consumers' declared interest in sustainable products and their willingness to pay for them, this gap is likely to close, at least for the most part, over the next few years.

Step 9

Lead by personal example

Especially internally, leaders' credibility in communicating on sustainability matters is a function of the behavior they demonstrate – above all, this is true for the person at the top. You need to practice what you preach, the old saying goes. That does not mean that CEOs must completely stop using business flights and ride a bike to the office, but it is an appeal to challenge one's own behavior – which actually happens at many organizations. CEOs, like all other individuals, can only make limited contributions. But they play a key role in getting the entire organization's buy-in for an enormous endeavor that will require behavioral change from many people.

Step 10

Inspire passion for sustainability

To exploit the full potential of the transformation, you need a corporate culture that truly lives and breathes sustainability. So, how to create it? This is where CEOs' role as drivers, orchestrators, warners, and motivators comes into play. Their commitment must be both visible and credible to employees and other stakeholders – in smaller and in larger matters. It must be plain to see that the CEO firmly believes in the company's ambition and sustainability targets, and that the CEO is determined to lead the organization into a new era. This commitment goes a long way in inspiring teams and getting them to act.

THE HUMAN FACTOR

Working on the footprint, handprint, and heartprint

The transformation towards greater sustainability is an ambitious and complex endeavor. In this situation, a positive narrative is helpful – such as a newly created framework we are presenting here, which encompasses three components of impact: footprint, handprint, and heartprint. The footprint symbolizes a company's negative impact on the environment and/or society, while the handprint symbolizes its positive impact and the heartprint its transformative impact. Hence, the goal of the transformation for greater sustainability can be expressed as a simple triad: Reduce the footprint, increase the handprint, create a heartprint.

Reducing the footprint

By getting their companies on track for sustainability, leaders also reduce their footprint – ideally to the point where they have no more negative environmental or social impact. Even today, many organizations carefully analyze the impact of their activities along the entire value chain, and develop measures to reduce it. Typically, resulting guidelines for action are: reduce, recycle, repair, protect, comply – always true to the motto: Avoid causing damages.

Increasing the handprint

The handprint is the counterpart of the footprint: It captures the positive impacts of companies' activities on the environment and society. Along these lines, acting sustainably means you are aware of your positive impact on the environment and society, and analyze where and how you can maximize it. For companies, this results in a positive logic of action: increase, improve, change, strengthen, create.

A NEW SUSTAINABILITY FRAMEWORK

A proven approach to sustainable action

	FOOTPRINT Negative impact	HANDPRINT Positive impact	HEARTPRINT Transformative impact
Goal	Reduce negative impact to keep within planetary and social boundaries	Increase positive impact to achieve 17 UN sustainability goals	Achieve the impact required to get from attitude to action
Examples	CO_2 emissions, overuse of natural resources, exploitation of workers	More modern infrastructure, more educational opportunities, better social cohesion	Inspiration for sustainable actions, attractive incentives, positive narratives
Logic	Reduce, recycle, repair, protect, observe	Increase, improve, change, strengthen, create	Activate, touch, inspire, disseminate, encourage

Creating a heartprint

Once you have reduced your footprint and increased your handprint, you are well on your way towards creating a heartprint. Anything you do has an impact on others. Actions in the heartprint sense usually follow a motivating logic: activate, touch, inspire, distribute, animate. Above all, a heartprint depends on the people in the company, especially the managers, as they need to live and breathe sustainability and to communicate persuasively.

The framework outlined here can help strengthen companies' awareness for the challenges ahead. In practice, several visions and sustainability strategies have been developed on this basis and backed with specific targets and measures. German businesses still have a long way to go. But if they work hard to reduce their footprint, strengthen their handprint, and truly create a heartprint, this country will be a different place in 20 years. A start has been made: Germany's CEOs have begun to get their companies on track for sustainability.

Epilogue

By Holger Hoff

Dr. Holger Hoff is a Senior Scientist at the Wegener Center for Climate and Global Change at the University of Graz, Austria, and a visiting scientist at the Potsdam Institute for Climate Impact Research. The focus of his research is climate adjustment, the management of natural resources, and sustainable production and consumption.

In his prologue, Johan Rockström addressed the pressing urgency we face due to the global climate and biodiversity crisis. The study itself demonstrates impressively that CEOs have understood the urgency and the resulting need to act quickly and purposefully – across all sectors and institutions along the value chain, and in line with each party's possibilities and responsibilities.

Each of us has the chance to contribute our share to the sustainable transformation by changing our consumer behavior. Companies, due to their enormous possibilities, have a key role in this transformation. They drive technological innovation such as the scaling and cost reduction of sustainable products, as well as new business models. Moreover, companies and sectors can set and enforce new sustainability trends, changing consumers' behavior.

By doing that, companies have the chance to become the avantgarde and shape the agenda for positive transformative change, rather than settling with the stereotype of continuing with carbon-heavy business models, so long as those are profitable. Instead, they can trigger step-change innovation in their respective markets, strengthening their own position with sustainable concepts and products.

To further accelerate the necessary changes, private-sector companies can form a coalition of the willing with representatives from the spheres of politics, civil society, and science. Rather than assigning blame for a lack of commitment, the order of the day is coordination and cooperation across these groups. Interdisciplinary formats resulting from this cooperation will help to make the transition constructive and fair.

This study is evidence that CEOs are listening to science. The message from scientists – which isn't entirely new – is that we urgently need to act. With support from science, companies can develop consistent ecological, economic, and social sustainability targets and regularly follow up on them. This way, they will help to shape a positive transformation, in which change is viewed as an opportunity rather than a threat.

While CEOs have impressive means to introduce the necessary rapid change in their companies and sectors, they also depend on conducive political and social conditions to back the measures they take. There is only one way to achieve the necessary change in attitudes and actions of all actors in society: through constructive dialog and cooperation, based on robust scientific evidence.

Credits

This study is the product of a collaborative effort. We thank Prof. Dr. Johan Rockström, Dr. Holger Hoff, Jannis Röthemeier, Julia Beckmann, Fabian Kast, Max Münster, Anna Wagenschwanz, Patrick Pelster, Stephanie Fürstenhöfer, Joanna Kasprzak, and Holger Follmann for their hands-on support and excellent cooperation.

The study is based on more than 20 in-depth interviews with top leaders as well as numerous background discussions with sustainability managers and experts. Special thanks go to our interviewees for their time, professional opinions, and personal insights.

Also, several partner organizations have provided support for this study – among them, the charitable Werte-Stiftung („Values Foundation"), the Renate & Falk Strascheg Foundation, the innovation platform FUTURY, and the ReAct initiative, which most of our interviewees are engaged in. We extend our sincere thanks to them.

www.wertestiftung.org **www.futury.eu** **www.react-initiative.de** renate & falk strascheg stiftung

Imprint

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Design ad Borsche GmbH, Munich
Photos Companies, Shutterstock, Patrick Pelster

Published in the context of the conference COP26 in November 2021