



# Sustainability and Leadership Competencies for Business Leaders

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## ABOUT THIS REPORT

The report—led by authors Adam Faruk, founder, Changing Consciousness, and Anita Hoffmann, founder, Executiva Ltd—is based on a literature review as well as interviews with individuals listed in the annexes. The authors would like to thank the interviewees. Any errors that remain are those of the authors.

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# 1. Foreword

The subject of leadership and the role it plays in achieving more sustainable business practices is both critical and timely for BSR. Whether we are working with a CEO and her direct reports or with a new director of sustainability who is looking to “make the business case,” questions and assumptions about the nature and role of leadership are front and center. It has become a truism among sustainability advocates that commitment needs to start at the top, or at the very least the CEO needs to “buy in” for real change to have a fighting chance. What is often less clear is what it means for a CEO or other influential player to provide the necessary leadership on sustainability.

What does that leadership look like, and how is it exercised?

Our experience strongly supports the findings in this report. Leadership is not demonstrated when someone from the C-suite issues a set of specific edicts, but rather when those individuals develop objectives, strategies, and a disciplined plan that both guide and respond to the best people and ideas across an increasingly diverse portfolio of markets and business functions.

This has implications for senior leaders as well as for those who hold leadership roles in other parts of the organization. It is notable that many of the “leading company” examples presented in this report are characterized by decentralized authority and decision-making. More companies are extending this approach to include key external stakeholders who, until recently, were not considered critical players in corporate decisions. Furthermore, as companies look to attract and develop their next generation of leaders, they will need different skill sets to be able to manage the increasingly complex sustainability factors impacting companies.

The bottom line: Effective leadership at all levels of an organization—from front-line change agents to senior management—will increasingly depend on a sophisticated ability to identify, engage, and incorporate the needs and interests of a diverse range of internal and external stakeholders.

BSR is delighted to be collaborating on this important topic, and we hope you find that this report brings a fresh perspective and related “language” from the world of leadership development and coaching that will help us integrate sustainability considerations into the thinking and management practices of business leaders.



## 2. Executive Summary

The quality of corporate leadership has come under great scrutiny recently as many have questioned the ability of leaders to articulate and deliver a vision commanding the broad support of investors, customers, employees, and other stakeholders.

Most large companies acknowledge the need to be more responsive to shifting societal expectations, to be better able to establish trusting relationships with stakeholders, and to become more open and accountable. And yet those same companies often struggle to translate good intentions into good practice.

In no small way this is due to the lack of any serious, practical guidance addressing the outmoded way in which leaders tend to be selected and developed. We refer to this as the “sustainability leadership gap.”

The research reported here comes from a collaboration between BSR, Changing Consciousness, and Executiva Ltd to describe the competencies necessary for senior managers, executive teams, and boards to lead with sustainability in mind.

The research sought to achieve this by drawing useful insights from the experience of those in leadership positions in companies recognized for their sophistication in balancing business success with a social license to operate and grow.

The issues investigated include:

- The evolving challenges facing companies and the implications for the demands placed on leaders.
- What new leadership competencies are required and what this should mean for recruitment, executive assessment and development, team development, and new director training.
- The role of corporate governance, including new director training, succession planning, and board evaluations.

### **Evolving Leadership Challenges**

The findings, presented below, cluster around five themes and offer a brief description, as seen by interviewees, of the ways in which leading companies tend to differ from others in how they respond to the challenges facing corporate leaders. As a shorthand, the term “leading companies” is used below to identify companies recognized for being at, or actively working toward, the leading edge of corporate responsibility and sustainability. That is, the focus of this research is to identify the companies and those working in them.

**1. Living with uncertainty and complexity:** According to interviewees, leading companies tend to have a more sophisticated appreciation of complexity developed through their interest in long-term mega-trends and by engaging with a broad range of stakeholders. They make a greater effort to involve a range of perspectives in risk assessment and strategy making, including from those stakeholders representing a great diversity of different and even conflicting interests.

**2. Valuing difference:** Being able to listen to and truly hear “different voices” from inside and outside the company is a key feature for success in the future, according to the respondents. For leading companies, diversity has developed beyond the conventional agenda that tends to focus on gender, ethnicity, age, and so on, and into taking a considered interest in “cognitive

diversity” by hiring and promoting executives offering different ways of thinking.

**3. A relational enterprise:** Leading companies are going beyond stakeholder consultations and surveys designed to underpin a CSR report, and into dialogue and collaboration. Stakeholder engagement in these companies therefore is about more than providing a greater awareness of emerging risks and a measure of stakeholder assurance for a firm’s activities—it also becomes a source of new ideas and innovation.

**4. Stepping outside the system:** Interviewees report that leading companies are not content to simply respond to a shifting landscape. They are unusually active in shaping their social, political, and policy environments by securing the “social permission” to participate in the broad debate about the future of their industry. They also experiment with new ways of working, including by using technologies and developing products that have the potential to transform markets through the power of example.

**5. Leaders developing leaders:** Leading companies report an ongoing reassessment of what individual achievement in organizational life really means, and the emergence of a less directive, less hierarchical approach to leadership. Instead of largely being the preserve of the C-suite, strategy-making has become a more participative process where more of those who will ultimately determine its success are involved.

### **New Leadership Competencies Identified**

All this points to a different leadership profile emerging. Until recently, companies recruited, rewarded, and promoted leaders based on operational and internally focused competencies. This research suggests that companies would do well to emphasize the ability of leaders to develop and maintain a diversity of relationships with those both inside and outside the company *in addition* to these tried-and-tested operational skills.

To test this idea further, interviewees were asked to pick the five competencies they regarded as most important for leaders from a framework comprising 23 in total. Many of these can be found in most competency frameworks with slight variations, but a number are new. These “new competencies” are not, as verified by this research, commonly found in such frameworks and emphasize the attitudes, abilities, and experience necessary if leaders are to look after stakeholder relations and take a longer-term view. During the course of the interviews there was also discussion about the definitions of some classic competencies, with interviewees often recommending modifications.

The top competencies overall as identified from the interviews are:

- External awareness and appreciation of trends (new)
- Visioning and strategy formulation (redefined)
- Risk awareness, assessment, and management (redefined)
- Stakeholder engagement (new)
- Flexibility and adaptability to change (redefined)
- Ethics and integrity (classic)

It is startling that five of the six competencies identified as the most important are either new or, in the opinion of interviewees, requiring significant modification from the classic definitions if companies are to select, develop, and promote those able to lead in an increasingly economically connected, ecologically interdependent, and socially accountable world. That is, if the “sustainability leadership competency gap” is indeed to be bridged.

### **Implications for Recruitment, Development, and Promotion of Leaders**

Leading companies in recent years have recognized a “sustainability leadership gap” and are now busy redefining what leadership competencies they need to bridge it. Many see this as vital for their business success and long-term growth prospects. Reflecting these new competencies in the recruitment, development, and promotion of leaders will be, for them, a priority over the next few years—they see it as “the next frontier.” Chairmen are also focusing on the challenge with regard to both the competence of the board and the executive team they oversee.

We hope this report will be a useful aid for those looking to make progress.

### 3. Introduction

There is a growing recognition that the way leaders lead needs to change in an increasingly economically connected, ecologically interdependent, and socially accountable world. The quality of leadership matters if companies are to play their part in making progress toward sustainability, arguably *the* challenge of our time, and prosper in doing so.

While a great deal of research has been conducted over many years into leadership styles, competencies, values, and ethics, only a small fraction makes a link to sustainability. Indeed, there are remarkably few leadership models incorporating both long-established competencies and those recognizing the complexity of leading a modern, forward-looking business in a world of growing environmental and social uncertainties and opportunities.

Some of the more notable recent exceptions include studies that do indeed acknowledge leadership qualities as an important aspect of a larger sustainability effort. (e.g., Glen *et al* 2009; Generation Investment Management, 2012), while others go on to address competencies and executive development in some detail (e.g., Wilson *et al*, 2006; Gribben and Woudstra-van Grondelle, 2007; CPSL, 2010; Center for Tomorrow's Company, 2012; Gitsham *et al*, 2012). As useful as these studies are, few offer immediate and practical guidance for senior executives, nomination committees, human resources executives, corporate governance specialists, and others interested in improving the quality of organizational leadership.

Most large companies acknowledge the need to be more responsive to shifting societal expectations, to better establish trusting relationships with stakeholders, and to become more open and accountable. And yet those same companies often struggle to translate good intentions into good practice. In no small way this is due to the lack of any serious, practical guidance addressing the outmoded way in which leaders tend to be selected and developed. We refer to this as the “sustainability leadership competency gap.”

#### **Research Objective and Methodology**

The objective of the research reported here was very simple: to describe in an accessible and practical way the competencies necessary for senior managers, executive teams, and boards to lead with sustainability in mind.

The issues investigated include:

- The evolving challenges facing companies and the implications for the demands placed on leaders.
- What new leadership competencies are required and what this should mean for recruitment, executive assessment and development, team development, and new director training.
- The role of corporate governance, including new director training, succession planning, and board evaluations.

This research seeks to achieve its objective by presenting insights drawn from the experience of those in leadership positions in companies recognized for their sophistication in balancing business success and a social license to operate.

Therefore, the starting assumptions for this research are:

- The business case for corporate responsibility and for a much more ambitious approach to the challenge of sustainability is robust.
- Much can be learned by examining those companies that have done well by leading the corporate response to this challenge.

- The best place to learn about the role of leadership is from those leading these exemplary companies, and indeed from those expert in the recruitment and development of such leaders.
- The most useful way to present the findings is with reference to leadership competencies, given the influence of competency frameworks on organizational life.

The research method was based around 10 scoping interviews to inform semi-structured interviews with a further 20 business leaders and experts. Interviewees were chosen for their knowledge of the issues being investigated, reputation, and to represent a diversity of sectors, cultures, and opinion. They are also recognized by their peers for their own leadership qualities. A full list of interviewees is provided toward the end of this report.

The semi-structured interviews were conducted to a carefully constructed protocol and the information they provided coded to identify key themes. To encourage candor, all information from the interviews has been aggregated so that nothing could be attributable to an individual or his or her organization unless permission was secured for a particular comment to be used.

The findings from the interviews, with illustrative quotes, are presented in the next section. The report continues by linking these findings to the recruitment, development, and promotion of leaders with particular reference to competency frameworks.

Finally, a series of short commentaries from opinion-leaders provides a range of perspectives on the findings to provoke, it is hoped, a wide-ranging discussion of these important issues.

## 4. Changing Companies in a Changing World: Perspectives From the Leading Edge

The findings presented below offer a brief description, as seen by interviewees, of the ways in which leading companies tend to differ from others in how they respond to the challenges facing corporate leaders. The term “leading companies” is used here to identify companies recognized for being at, or actively working toward, the leading edge of corporate responsibility and sustainability. That is, to identify the companies and those working in them that are the focus of this research.

The findings clustered around five main themes:

1. Living with uncertainty and complexity
2. Valuing difference
3. A relational enterprise
4. Stepping outside the system
5. Leaders developing leaders

Each of these is examined below. The findings do not seek to represent the unanimous or even majority view of those interviewed, but rather to offer some insights that consistently emerged in conversation with this group of experts and exemplary leaders.

### Theme 1: Living With Uncertainty and Complexity

A clear finding from this research is that organizations that pay attention to their shifting environmental and social context tend to have a more humble relationship with the future than others who are often more convinced of their ability to anticipate what lies ahead. Recent events in the global economy have eroded that conviction and have demonstrated the complexity inherent in interconnected economic and social systems, and so the folly of relying heavily on expertise based on predictive models.

According to interviewees, leading companies have developed their appreciation of interdependence and complexity through their interest in long-term mega-trends and by engaging with stakeholders who often represent a great diversity of different, even conflicting, interests. These companies therefore are more comfortable in dealing with issues where there is rarely a “right answer” or a high degree of certainty. Sustainability is replete with dilemmas and those working with them soon realize that no amount of analysis will reduce them to a series of puzzles for which there is a series of discrete solutions.

*“Just because you’ve survived a risk doesn’t mean you’ve managed it—maybe you just got lucky.”*

—Graeme Sweeney, director, Ardnacraggan (Energy Services) Ltd, retired executive vice president CO2 for Royal Dutch Shell

*“Great leaders see the bigger context, are long-term thinkers, and can communicate so people can act short term. They do this with humility, which makes them authentic and credible.”*

—Mary Capozzi, senior director, Sustainability and Corporate Responsibility, Best Buy

*“To embrace sustainability you need to embrace uncertainty and change without forgetting where you want to land [your goal]. So scenarios—yes, but they must be balanced with a ‘lighthouse intention’ to avoid being a slave to uncertainty.”*

—Stefano Giolito, global director, Sustainability, Unilever

This shift of emphasis (and it is only that) from planning based on a fairly well circumscribed description of *the* future to a more uncertain future with assumptions held up for challenge, is both subtle and profound. It may be characterized as the difference between an optimization mindset and a

resilience mindset. In practical terms this makes itself felt by 1) less faith being placed in forecasting and central planning, 2) a less formulaic approach to risk management, including low-probability/high-impact risks (a category companies and boards often fail to adequately prepare for), and 3) a greater effort to involve a range of perspectives in risk assessment and strategy-making.

*“It is not the plan but the planning process that is important. When you force implementation of a plan, it will not be effective.”*

—Glenn Barbi, vice president, Sustainability/The Office of Global Sustainability, Becton Dickinson

Perhaps the best way to illustrate this shift of mindset is in the use of scenarios as a response to a greater awareness of the complexity of running a business, in contrast to conventional “straight-line” or backcasting approaches to strategy making. Contrary to the popular view, scenario-based approaches are not about examining a number of potential futures to decide which is most likely, and building a strategy around it. Indeed, that approach is antagonistic to scenario thinking, which instead encourages executives throughout an organization to consider, and become sensitized to, potentially important influences on their business so they might better recognize and respond to them.

Of course, this necessarily involves listening to a broader range of perspectives than is common in strategy making, and examining them in some detail. These “memories of the future,” drawn not least from thoughtful provocateurs, are intended to be part of a learning exercise that encourages a flexible approach to the future.

*“Risk assessment encourages dialogue. Once per quarter our executive committee gets together with the head of risk and debates risk in its broadest sense. Then we present the top six to the board. This includes macro-risks and how to mitigate them.”*

—Andrew Brandler, CEO, CLP Holdings

This does not suggest there is no room for corporate planning in the conventional sense—of course there must be, and the importance of having a “lighthouse intention” to avoid being hamstrung by uncertainty was stressed by some. But rather a resilience strategy is broad-based and ensures more corporate resource is set aside to respond in intelligent and timely ways as the world changes, often in unexpected ways. Given recent events in the global economy, such concerns are high on the agenda of business leaders.

A leader’s mindset:

- Recognizing complexity, and knowing the difference in practice between a dilemma and a puzzle.
- Building a resilient company able to respond to changing circumstances.
- Strategy and risk management in a learning culture.

## Theme 2: Valuing Difference

Leading companies are more outward-looking by their nature, according to interviewees. Pressure for greater social accountability and the recognition that business success depends on more than investors, customers, employees, and suppliers has brought more of those representing other interests closer to the company. This inclusive approach to stakeholders has rarely been easy—far from it—but a realization that a company is indivisible from the societies and natural environment in which it is a part has led to efforts to “bring more of the outside in.”

*“The world is more technical and more complex and people are more specialized. We need people who can bring wide scanning ability and credibility; people who can interpret and translate weak signals to the organization.”*  
—Vivienne Cox, independent non-executive director and chairman

Some leading companies have gone beyond stakeholder engagement in the usual sense by establishing external panels of critical friends to work with leadership to bring new perspectives into decision making in a very direct way and even to operate as a “dragon’s den” to test new ideas and products.

*“You need to create a shock to the system but in a useful way—call it productive disturbance. Recruiting someone from outside the company can do this, so can appointing people from other parts of the business, as can working with close critical friends from outside. This kind of independent challenge can be transformative.”*

—Stefano Giolito, global director, Sustainability, Unilever

This approach requires an openness to different views that reaches beyond the diversity debate with which most are familiar, although it is bolstered by the same rationale seeking to draw on the range of talents available to companies and, indeed, to be more representative of the societies in which they operate. But this well-established diversity agenda, as important as it surely is, has become, ironically, quite narrow, tending to focus on gender, ethnicity, age, and other factors that fit easily with the concerns of the day and a simple taxonomy.

*“There’s a need to use collective wisdom and cognitive diversity in teams. We are slowly building this into our leadership frameworks. We are aiming for maximum diversity using various filters.”*  
—Anonymous

Diversity for leading companies is about more than seeking to promote greater diversity on boards, for example, or wanting to reflect local culture when expanding operations into new markets, or attempting to ensure that a workforce broadly reflects local communities. It also means taking a considered interest in “cognitive diversity” by hiring and promoting executives offering different ways of thinking and seeing the world than the obvious candidates. In leading companies, a polymath is seen as a valuable addition, not a threat or a loose cannon. Some also recognize the advantages in appointing to senior positions (usually from within) those with unconventional career paths and an unusually diverse work experience.

This tendency is becoming increasingly noticeable among those leading on corporate responsibility and sustainability issues. A career in sustainability is no longer for just the experts in the field. Those coming from a mainstream business background are drawing on their wider experience to help translate what was *the* case for change, couched in the technical, esoteric language of sustainability specialists, into a series of cases articulated for a variety of audiences such as marketing, public affairs, finance, and so on.

Whether through the activities of those leading change internally or by creating the space for those outside the company to influence it, two main benefits have emerged. The first and most obvious is a questioning attitude toward accepted assumptions, habits, and ways of working.

The second main benefit is somewhat paradoxical but is no less important. A challenge to “who we are” and “how we do things around here” just as often serves to reassert the importance of long-held values. In other words, welcoming different thinking and beliefs, when done well, not only holds the prospect of useful change but is a tremendous force for corporate cohesion. Most executives instinctively know their company is first and foremost a community of people who come together for a shared purpose. As such that group needs to periodically revisit what it stands for if it is to revivify its culture and develop its identity. Engaging with stakeholders who may hold very different views on what the company should be, and listening to those views even when they are difficult to hear, prompts that company to revisit itself in response. In other words, it provokes a shared clarity about “what kind of company we are and want to be.”

*“The biggest challenge today is the ability to talk to people you don’t necessarily agree with and being able to listen to them. We need to learn to listen to people who question or don’t agree with us. Leaders need to extract and try to understand what is driving the person they are speaking to and the implications of what they are saying. This is*

*even more important today with all the loss of trust and new communications methods.”*

—Mark Moody-Stuart, chair, Hermes Equity Ownership Services Ltd and chair, Foundation for the UN Global Compact

*“They [leaders] also need to be able to blend into the crowd so they can listen quietly. We don’t prepare leaders for this.”*

—Gill Rider, president, The Chartered Institute of Personnel and Development (CIPD)

A leader’s mindset:

- Promoting cognitive diversity and a more diverse diversity agenda.
- Appreciating the value of critical friends.
- Recognizing difference as a simultaneous force for change and for reinforcing what is worthwhile and still relevant in corporate culture.

### Theme 3: A Relational Enterprise

Companies wanting to establish themselves as socially responsible in the minds of a broad range of stakeholders often start with community investment and employee volunteering, and over time invest in a more sophisticated reporting and communications effort, initially without much change in behavior. As the limitations of this approach become evident, many companies progress to taking a deeper interest in social accountability. But for most companies, even those regarded as good corporate citizens, these efforts tend to be limited to stakeholder consultations and surveys designed simply to underpin a CSR report or similar. Such transparency and accountability is valuable and should not be disparaged. It provides senior executives and others with a snapshot of the state of stakeholder relations at a given point in time.

This is not, however, an altogether satisfying process for everyone involved. Sometimes stakeholders feel as if they are being managed and complain that companies avoid the difficult decisions. Stakeholder fatigue, too, is a real concern, especially where consultations are perceived to be one-sided and fail to respond to stakeholder priorities.

*“It is human to think that once you are aware of a stakeholder you are in control—but this isn’t true. Stakeholder views can change quickly.”*

—Christina G. Sorensen, senior vice president, DONG Energy Wind Power

Leading companies are moving beyond these transactions in information and into dialogue and collaboration. The term “dialogue” here refers to more than a stimulating conversation. It is a quality of exchange that puts relationships at its heart and so holds the prospect of doing something together that each party would struggle to do separately. Rather than accepting the “you and me” binary division that characterizes so much stakeholder engagement, dialogue invites representatives of a company and its stakeholder groups to forge common ground and find new, imaginative ways to make progress. For leading companies, stakeholder engagement goes beyond providing a greater awareness of emerging risks and a measure of stakeholder assurance for its activities, and also becomes a source of new ideas and innovation. In some cases it may even deepen into co-creative relationships, such as when a company and a sample of its customers and other stakeholders develop new products together.

*“A major change is how ‘stakeholder management’ is moving to ‘partnership management,’ from consultation to real action focused on dialogue with unexpected people and functions. We also need to*

*“Leaders need connectedness to the outside world. An excellent leader has a strong network of contacts including competitors, policymakers, etc. to benefit the company. They have stature and can represent at high levels.”*  
—Colin Melvin, CEO, Hermes Equity Ownership Services Ltd

*“You get the level of trust you give when your actions speak so loudly it’s difficult to hear what you’re saying.”*

—Glenn Barbi, vice president, Office of Global Sustainability, Becton Dickinson

*partner with the financial sector to achieve our sustainable vision of the future. This approach is needed because so much of Unilever’s impact is beyond our direct control—even where we are the biggest global purchaser of something, such as tea or palm oil, we’re still only a small part of a much larger market.”*

—Stefano Giolito, global director, Sustainability, Unilever

To this way of thinking and the kind of leadership that comes with it, a company is its social capital. Of course human, natural, manufactured, and financial capital are enormously important too, but a company’s relationships is the context within which all else resides, given that so much on which the company is ultimately dependent lies beyond its control.

*“Building relationships is so important—especially in the developing world. In countries such as China, personal relationships come first; business comes later.”*

—Glenn Barbi, vice president, Office of Global Sustainability, Becton Dickinson

*“In the past a stakeholder represented a big section of society that had some inherent standing in the industry they addressed. Now even a single individual can become a significant stakeholder if they, for example, develop a significant following in social media.”*

—Mark Moody-Stuart, chair, Hermes Equity Ownership Services Ltd and chair, Foundation for the UN Global Compact

A leader’s mindset:

- Complementing stakeholder consultations and formal social accountability processes with dialogue and partnership building.
- Recognizing stakeholder engagement as a source of new ideas and innovation.
- Looking after relationships as a critical concern for leaders, including partnering with “unconventional” stakeholders.

## Theme 4: Stepping Outside the System

Leading companies are not content to simply respond to a shifting landscape—they are unusually active in shaping the social, political, and policy environment of which they are a part. These companies also understand that scrutiny of business behavior will only increase and that corporate freedoms can only be maintained if corporate responsibilities are widely acknowledged as proportionate with those freedoms.

Many of these companies are no longer willing to wait for ever more sophisticated business cases and even more evidence for the case for change. As far as they are concerned, enough is known to take bold decisions at the expense of competitors paralyzed by indecision or denial of brute social and environmental realities. This is certainly not to ignore evidence—the sustainability agenda is built on evidence-based change—but it is to understand its limits and recognizing the importance of leading in the absence of certainty (surely the essence of good leadership). A strong corporate identity and values is often the only practical compass for a leader needing to make decisions about inherently complex and contentious issues when the data are not enough.

*“Leaders need to have the courage to say to analysts and investors: ‘Long term this is a very good direction for the company—become a shareholder, not a sharetrader...’*

—Fred van Beunigen, director, Strategic Marketing, Akzo Nobel

*“Sometimes doing something bold requires going beyond the data and taking a leap of faith. Sometimes you need to take a risk and think about identity and what you want to be known for. This morphs the discussion away from trying to prove the unprovable and into discussions of leadership.”*

—Stefano Giolito, global director, Sustainability, Unilever

These acts of leadership broadly take two forms. The first is working for change at a sectoral level. Often this attracts the opprobrium of peers, not least because stepping outside a system (in the psychological sense) that is perfectly rational in its own terms is, by definition, irrational for those whose worldview continues to be shaped by it. According to interviewees, those leading in this way are often able to take a longer-term view—including of their own careers—and ponder their legacy and the importance of being a citizen as well as a manager. They are also able to articulate a greater corporate purpose and values that extend beyond profit and short-term shareholder value, and in doing so secure for their company the “social permission” to participate in the wider debate with policy-makers and others about the future of their industry. It is they who are shaping the social contract, the compact if you prefer, between business and society. The fallacy of separating a company’s social utility from its financial success is being challenged by these “game changers” as they look to bring the two back together in the minds of their colleagues and stakeholders—including investors.

*“We need to change the mission of companies to reflect public priorities and so earn the right to contribute to the debate on the future.”*

—Graeme Sweeney, director, Ardnacraggan (Energy Services) Ltd, retired executive vice president CO2 for Royal Dutch Shell

*“We have all grown up with a coherent system that is now becoming incoherent. To step outside the system is incomprehensible to one’s peers—you need courage to be an outlier.”*

—Vivienne Cox, independent non-executive director and chairman

The second way of promoting profound change as seen in leading companies could be described as experimenting at the edge of the business model. There has been much discussion about integration within corporate responsibility circles over recent years. This has usually meant changing organizational processes and systems such as balanced scorecards, supplier assessments, and incentive and reward schemes to at least acknowledge environmental and social issues. This is a broadly based but shallow approach. Leading companies do more by complementing these efforts (that surely have merit) with narrow and deep integration by trying genuinely ambitious, more sustainable ways of working, new technologies, and new products, all of which have the potential to transform industries through the power of example.

*“Foster a culture where it is OK to make mistakes and learn. Sustainability management is a new area and progress is only made by trying new things and learning along the way.”*

—Ronald Herbst, global head, Energy & Sustainability, Deutsche Bank AG

It is this healthy relationship with risk-taking and creating safe spaces to conduct “fast, low-risk experiments in change” with the intention to do more of works in practice that not only requires courageous leadership, but encourages it in others. It also promotes a vibrant corporate culture learning to innovate in response to changing societal expectations, needs, and preferences. Unilever’s Comfort One Rinse is an example of this where a recognition of water scarcity in many parts of the world led to the development of a laundry product that cuts water use for rinsing down to 20 to 30 percent of the original products it is progressively replacing. Within 18

months of launch this product reached over 50 million households, turning an acute social challenge into a business opportunity by first testing the product with the market and then gradually transforming it as its commercial potential became increasingly apparent.

A leader's mindset:

- Aware of the importance of a clear corporate identity and a values compass, especially when the data can only take you so far.
- Appreciating the value of securing the social permission to be active in shaping the compact between a company, its sector, and society.
- A pioneering spirit and an ambition to innovate and transform industries through the power of example.

## Theme 5: Leaders Developing Leaders

It seems many of those interviewed were glad to see the demise of the “philosopher king,” or hero CEO. For too long, they feel, too much faith has been placed in the abilities of one person or a small group of people who somehow are assumed to be uniquely insightful and capable.

Leading companies report an ongoing reassessment of what individual achievement in organizational life really means and with it a greater recognition of just how reliant even the most impressive leaders are on those around them—including those who do not enjoy a lofty position in an organization, or a grand job title.

*“Intrinsically trust the people who work for you; let them get on with it. But also let them know that you are there if they need you.”*

—Gill Rider, president,  
The Chartered Institute of  
Personnel and  
Development (CIPD)

The practical challenge of managing stakeholder relations on a day-to-day basis has prompted a less directive, less hierarchical approach to leadership. Those at the top of leading companies report making deliberate efforts to never be isolated and to involve more of their organization in the management of it. This emphasizes listening skills, and having the confidence and trust to devolve authority away from the center.

This, in turn, prompts the participation of more of the organization in setting its priorities. Instead of largely being the preserve of the C-suite, strategy-making becomes a more participative process where more of those who will ultimately determine its success are involved. In other words, strategy is not something imposed from above but instead emerges from the larger organization. It stops being “their” strategy and becomes “ours,” not because of a fantastically effective communication effort but because of an understanding and commitment that can only come from having contributed to it. In the minds of many interviewees, this kind of inclusive culture is associated with a more agile, responsive organization operating with a greater sense of shared ownership and purpose.

This cultural change was seen by interviewees as one of the unintended but beneficial consequences of a serious interest in sustainability. Companies intent on looking after their social capital and stakeholder relationships (central to a sustainability mindset) soon recognize the impossibility of doing so from the center. For very businesslike reasons, responsibility must be devolved to the ones directly participating in those relationships and formal authority must soon follow if those relationships are to thrive. This is not to suggest that companies interested in sustainability always operate with a flatter structure and a more participative corporate culture than others, but it seems a stakeholder orientation may well be a force for devolved leadership.

*“To release creativity in the organization you have to be comfortable with where the organization might go and give up some control. The CEO’s role today is less of ‘conducting an orchestra’ as the team is together ‘creating the score.’ Loosen the reins a bit and the organization will take off.”*

—Mark Moody-Stuart, chair, Hermes Equity Ownership Services Ltd and chair, Foundation for the UN Global Compact

*“Stakeholder management should come from the center, but the owner of the issue should own the corresponding relationship with the authority to do something about it. Responsibility should be devolved as low as is practical.”*

—Stefano Giolito, global director, Sustainability, Unilever

Clearly this has implications for how executives are developed. Greater emphasis must be placed on developing people across an organization in a formal sense (training, coaching, and so on) but, perhaps more important, devolved management responsibilities also provide valuable opportunities for more junior leaders to work *alongside* their seniors. For up-and-coming executives, these senior leaders become “someone from whom I can learn and develop myself with” rather than “the person who tells me what to do.”

And all this has implications for corporate governance as well. A number of interviewees worried that unless a wider range of interests are represented at board level, companies are likely to struggle to establish this kind of inclusive culture. Many stressed the importance of the chairman and his or her relationship with the CEO. A progressive chair was seen as very helpful, not the least in appointing and supporting CEOs and other senior executives capable of leading with sustainability in mind. And the interviewees were equally clear that there is insufficient guidance for chairmen, or for that matter CEOs, directors, or anyone else looking to make progress in this area.

*“Sustainability leadership works best when Chairs and CEOs come in progressive pairs. It is easier and faster to embed sustainability into the core of a strategy that way, as if it comes first from the CEO. He/she has to win over the board to this view, and if it is led by the Chair he/she may need to instigate the promotion or hiring of a CEO in a new mold.”*

—Emma Howard-Boyd, director, Sustainable Investment and Governance, Jupiter Asset Management Ltd

This leads back to the start of this report and the need for some practical, straightforward support of the kind offered in the following section.

A leader’s mindset:

- A humble attitude toward the notion of individual achievement in corporate life.
- Regarding the first responsibility of a leader as developing other leaders.
- Recognizing that formal authority must be proportionate to devolved responsibility for stakeholder relationships.

## 5. Implications for the Recruitment, Development, and Promotion of Leaders

In general, the themes identified in this research place much greater emphasis on the ability of leaders to develop and maintain a diversity of relationships with those both inside and outside the company than conventional competency frameworks tend to reflect.

Central to this are leaders learning how to listen to people who might have very different backgrounds, motivations, and ways of communicating than they are accustomed to. These individuals pay attention to different sounding voices that otherwise might be dismissed as idiosyncratic, ill-informed, or irrelevant. Welcoming different perspectives and thinking provides new insights, a more secure license to operate, the social permission to participate in discussions that will shape the future of industries, and awareness of so-called “weak signals”—those slightly fuzzy, low-frequency stakeholder sentiments rumbling in the background that, if left unattended, could gather momentum and engulf a company.

*“We are one, undivided humanity. An enterprise and stakeholders cannot be separate. We are interconnected in many ways, and sustainability is all about these linkages and relationships. For instance, the sustainability of a supply chain is only as strong as the weakest relationship in the supply chain.”*

—Anant G. Nadkarni,  
vice president, Group  
Corporate Sustainability,  
Tata Council for  
Community Initiatives

This emphasis on relationships necessarily brings the issue of values and a leader’s moral compass to the fore. As leaders make decisions in increasingly complex and ambiguous environments, so there is greater interest by companies seeking to demonstrate they are “doing the right things” from a deeply held set of values rather than just “doing things right.” In other words, for leading companies it is not enough that they are recognized for their competence—the real challenge is to be also recognized for their good intentions articulated on behalf of the organization by its leaders.

While most of the companies investigated as part of this research could be described as sustainability enthusiasts, some have only a fairly short history, maybe three to five years, of establishing a connection in practice between business value and corporate responsibility. Although the great majority have developed performance systems of various kinds that incorporate sustainability key performance indicators, they have only very recently (in the past year or two, perhaps) started to change the way they select and develop leaders. In other words, even for this group of companies, most of which are seen as fairly sophisticated in their approach to corporate responsibility, it is early days in their efforts to reflect sustainability concerns in the way they select and develop leaders.

Two of the more notable exceptions to this are Tata and Novo Nordisk. Interviewees from these companies were understandably somewhat mystified when asked if sustainability influenced the recruitment, development, and promotion of leaders: Tata has done just that for close to a hundred years and Novo Nordisk since 1989. The values associated with corporate responsibility and sustainability are so deeply ingrained in their culture, processes, and systems, including human resources, that this is a “completed but ongoing journey” for them.

But for the rest, this was seen as an area that will attract much greater attention over the coming years, not least from investors, many of whom are taking a closer interest than ever in the quality of corporate leadership and the ability of leaders to deliver a vision.

From the outset of this research it was decided that the most useful way to present the conclusions would be with reference to leadership competency frameworks, given their influence in organizational life. Most companies have a set of leadership competencies they aspire to, and assess and develop their leaders against. These sets of competencies are often arranged in groupings that reflect the direction the company is taking and the qualities it wants to develop in its leaders. Underpinning each competency is an anchored scale describing levels of proficiency—in broad terms, what every leader should be able to do, what excellence looks like, and, indeed, what

poor performance looks like. Most competency frameworks currently in use were developed in the late 1990s or early years of the last decade and tend to be internally and operationally focused, although it should be recognized that many companies have revised their frameworks as they have come to see them as too insular.

To further test the premise that externally-oriented and forward-looking competencies are important for leaders now and in the future, interviewees were asked to pick the five competencies they regarded as most important from a framework comprising 23 in total. The great majority of these may be found in most frameworks with slight variations and are referred to here as “classic competencies” (including analytical thinking, promoting best practices, decision-making and judgment, managing innovation, team work, delegating and empowering, creating internal accountability, and so on). But a number could be described as new. These “new competencies” are not commonly found in such frameworks and emphasize the attitudes, abilities, and experience necessary for leaders to look after stakeholder relations and take a longer-term view. During the course of the interviews there was also some discussion about the definitions of some classic competencies, with interviewees often recommending modifications.

The top competencies overall as identified from the interviews are:

- External awareness and appreciation of trends (new)
- Visioning and strategy formulation (redefined)
- Risk awareness, assessment, and management (redefined)
- Stakeholder engagement (new)
- Flexibility and adaptability to change (redefined)
- Ethics and integrity (classic)

It is startling that five of the six competencies identified as the most important are either new or, in the opinion of interviewees, requiring significant modification from the classic definitions and performance levels if companies are to select, develop, and promote those able to lead in an increasingly economically connected, ecologically interdependent and socially accountable world (see Figure 1, below). That is, if the “sustainability leadership competency gap” is indeed to be bridged.

**Figure 1: Leadership Competencies for the Future**



Table 1 (below) provides a thumbnail sketch of these new and redefined leadership competencies. Accepting that competency frameworks are useful in identifying strengths and weaknesses, and in promoting a better informed, purposeful conversation, it is also important to recognize their limits. No framework can cover everything and a prescriptive, unbending use of them would be unhelpful. We recommend using the new and modified leadership competencies outlined in this report to assist your thinking on how to bridge the sustainability competency gap, while reflecting your own corporate culture and operational concerns.

**Table 1: The Five “New” and “Redefined” Leadership Competencies**

<p>The descriptions below outline the new competencies identified in this research and those aspects of the modified competencies that differ from the common definitions.</p>
<p><b>External Awareness and Appreciation of Trends (New)</b></p> <ul style="list-style-type: none"> <li>• Scans the horizon far beyond his/her own company and industry to understand what is happening in business and society at large. Able to interpret “weak signals” from many sources even when the impact of them might not be immediately obvious.</li> <li>• Spends the majority of their time with people, both inside and outside the organization, gathering information from both formal and informal channels (including blogs and other social media), and from networks of “different-thinking” people.</li> <li>• Interprets trends and signals in such a way that colleagues, customers, and other stakeholders can see how this might create opportunities as well as risks.</li> <li>• Explores “jarring notes” (signals that are uncomfortable, fairly undefined at the start, but that could be very important) without shying away from thinking the unthinkable, even if the implications might be bleak.</li> </ul>
<p><b>Visioning and Strategy Formulation (Redefined)</b></p> <ul style="list-style-type: none"> <li>• Leads the development of and communicates a compelling future (vision) for the business reflecting its social responsibilities, creating value for the many, and recognizing the varying aspirations and expectations of stakeholders.</li> <li>• Co-creates a strategy with people across the company and is informed by those outside it, recognizing the value of a broad-based, flexible, multi-stranded approach.</li> <li>• Leads the development of socially responsible products and services with a view to making a positive impact throughout the value chain.</li> </ul>
<p><b>Risk Awareness, Assessment, and Management (Redefined)</b></p> <ul style="list-style-type: none"> <li>• Identifies, assesses, and manages risks including as they relate to corporate reputation and to stakeholder relations.</li> <li>• Assesses low probability/high impact risks that could jeopardize the company’s future while recognizing that risks are not independent, and leads the organization in assessing intertwined risks (so-called “risk-ropes”).</li> </ul>
<p><b>Stakeholder Engagement (New)</b></p> <ul style="list-style-type: none"> <li>• Demonstrates an interest in and knowledge of evolving stakeholder sentiment and expectations, and is able to respond astutely and respectfully to competing stakeholder interests.</li> <li>• Listens to people who question or do not agree with his/her or the company’s direction, and is able to extract valuable insights from such dissent.</li> <li>• Builds action-oriented, mutually beneficial partnerships including those with unconventional stakeholders.</li> <li>• Reads the political and opinion landscape, and represents the company’s interests to a broad range of stakeholders.</li> </ul>
<p><b>Flexibility and Adaptability to Change (Redefined)</b></p> <ul style="list-style-type: none"> <li>• Demonstrates the ability to lead the organization when there is considerable controversy and ambiguity concerning the best way forward.</li> <li>• Creates step-by-step strategies and “good enough” decisions flexible enough to be modified in the light of changing circumstances.</li> <li>• Listens carefully and respectfully to voices inside and outside the company for new information that might require a change of direction and thinks creatively about possible new ways of doing things.</li> <li>• Does not see own personal credibility as relying on being perceived as right all the time.</li> </ul>

Questions for senior executives and human resources directors:

- Do you assess your leaders and up-and-coming managers with sustainability in mind (including developing and maintaining a diversity of stakeholder relations, taking a long-term view, actively welcoming different perspectives, and promoting a pioneering and learning culture)?
- Do you reflect these considerations in the recruitment, development, compensation, and promotion of executives?
- Are you working closely with your executive search and development partners to ensure these new leadership competencies permeate all levels of your recruitment from executive committee succession to graduate recruitment?

Questions for those chairing boards:

- Are sustainability considerations part of board evaluations and succession planning?
- Is there a nominated director responsible for taking the lead on sustainability issues?
- Do your induction and new director training programs cover sustainability opportunities and risks?
- Are environmental and social issues integrated into incentive and reward schemes?
- Is there an advisory panel to inform your company about environmental and social trends, and work with leadership to respond to the associated risks and opportunities?
- Are you working closely with your executive search and development partners to bring sustainability into your boardroom and to others in your industry?

If the answer to any of the above is “no,” we hope this report will be a useful first step to making progress on a matter that leading companies report will be at the forefront of their efforts over the next few years.

## 6. Commentaries

### James Smith, Chairman, The Carbon Trust, and Retired Chair, Shell UK

Developing the right kind of leadership is vital to corporate competitive advantage in a more complicated, transparent, and demanding world.

Even more so, getting corporate leadership right is a necessary component of society putting itself on a sustainable footing. Corporations have a great deal to offer in terms of strategic view, market policy, technology, operational delivery, and staying power. The leadership skills highlighted in this report are essential to corporate leaders making that contribution.

The report provides very important insights, especially when it comes to the importance of “valuing difference.” This helps in acquiring talent, generating distinctive creativity, and diminishing the risk of dangerous group think.

However, in a report that rightly highlights dilemmas, I would like to highlight one that is not referred to and strikes me as especially important and problematic: It is the dilemma of combining thoughtful leadership with uncompromising delivery.

I believe in the rigour of fiercely competitive markets. This demands quality products produced at low cost in safe and clean working environments. This takes discipline, attention to detail, an accent on productivity and a focus on simplicity. I don't suggest the dilemma lies in how people are treated. I think directive leadership is counterproductive in any environment. However, it does mean adopting a narrow focus on tightly prescribed goals. This is a bit removed from broadly based stakeholder relationships and strategic positioning based on sustainability.

Nor do I suggest it is an unmanageable dilemma. I have seen excellent people who could combine thoughtful leadership with uncompromising delivery. But I have also seen that not everyone can. This narrows the pool of those who can practice truly sustainable leadership.

Selection criteria, ethos, and development programs should encompass the need for both. Self-awareness and situational awareness will help a leader select the right tools for the job in hand.

Here is a possibly useful tool I used in Shell to combine thoughtful leadership with uncompromising delivery: Plot goals along two dimensions—delivery and capacity. Delivery is about those measurable, short-term goals. Capacity comprises components such as human capital, relationships, brand, product base, intellectual property, business systems, and physical assets. A good leader must both deliver against short-run targets and build capacity. Delivering against targets by drawing down on capacity is a sin.

My aim is not to dilute anything in the report. I just want to caution against the classic corporate risk of being so consumed by a new idea that existing, important things are taken for granted—and suffer.

My suggestion is that competencies for sustainability leadership need to be all inclusive and incorporate the need for uncompromising delivery. Sustainability extends, not redirects the leadership challenge. Leadership and talent are the most important agenda items for a board.

## Geoff McDonald, Global Vice President, Human Resources, Unilever

The big theme coming through in this research supports what I refer to as “leading for the *and*.” We are aiming to double our business figures *and* reduce our environmental impact *and* increase our social impact.

I find that most leaders today know well how to do the business-building part of the equation, but struggle with the right-hand side of the equation. This is due to the way leaders have been selected, trained, and rewarded, as well as how business and society has, until recently, regarded what great leadership looks like.

I think a new leadership model is emerging, which the study is alluding to, but might be even more strongly described by a model developed in 2008 by Ray Blunt and William Messenger. Blunt and Messenger suggest that many of today’s leaders were trained to gain power and authority, but in a rapidly changing world (including the loss of trust and confidence in institutions), leaders need to make the journey from this place to a place of alignment with the interests of society, and ultimately become passionately convinced that they and their companies have a real contribution to make to society and become “givers.” This entails a real shift from, as the study mentions “the philosopher king” leader to a much more humble and “service to society” attitude to leadership. Many leaders will find it difficult to make this shift “leading for the *and*.”

Another new and interesting area for me is the focus on the relational enterprise and partnership building. I totally agree that the days are gone when a company can create the solutions in isolation. We need to build strong partnerships with many partners that were unlikely a few years ago, like NGOs, government, and even competitors.

The third area I found interesting was the subject of flexibility and adaptability, which (differently to other competency frameworks) is described as less about character building but more about building values and a culture of inclusiveness to become an adaptable organization.

Several themes were reconfirmed, like the uncertainty of the world we operate in, the need to step outside our boxes if we want to achieve change and the need for leaders to develop leaders.

From my point of view, the importance of this research is high. As mentioned, with the loss of faith in institutions, leaders need to rebuild trust and show that multinationals have a real role to play in contributing to the solution of the world’s issues. In order for that to happen, we need to see more companies developing a moral purpose of their business, or “a moral compass” as the study describes it. This goes beyond a vision being the best-rated company in the sector to [looking at the] contribution it is making to society.

I believe that HR has a very serious role to play in helping develop this moral purpose, being the custodian of these shared values. This is in addition to the strong practical role HR can play in this leadership shift, to get leaders from just accepting that the world has changed to truly championing this shift, despite short-term pressures, with courage and conviction.

These types of leaders are not easy to find, and we need to embark on a major journey revising how we select, train, reward, and promote leaders as well as how we define our employer brand and the corporate brand. We need a whole new model for what leadership means, and a revision of executive education both at university and executive education level, and this research is making a very important contribution to this development.

## Peter Coleman, CEO, Woodside

This research paper has considerable merit. It challenges and expands our thinking on contemporary leadership in a way that can support business to deliver in the areas of sustainability and corporate citizenship.

It is a timely reminder of the new sustainability challenges facing business, and the evolving competency requirements by senior leaders to meet those challenges. It goes beyond a description of these challenges to offer insights for business leaders dealing with an increasingly complex and uncertain external environment.

The research outlined in this paper builds on leadership research and theory of the past decade. Importantly, it also resonates with the practical experiences of the Australian oil and gas sector, which is adapting to an increasingly competitive global environment while meeting the growing expectations of external stakeholders.

Striking this balance successfully requires a recognition that both elements—commercial success and corporate responsibility—support each other.

This is reflected in the research, which assumes a robust business case for corporate responsibility and sustainability. It is also reflected in the organizational change program underway within Woodside, in which our strategic direction and core capabilities are underpinned by strong organizational values. This aligns with the competency “need” findings in the paper.

Also fundamental to Woodside’s success is our external orientation and being seen as a partner of choice. The relational enterprise theme in the paper holds particular relevance for our company in this regard, aligning with our determination to work sustainably within the communities in which we operate.

While the paper makes useful references to management competencies, it would be beneficial for the research to more directly reinforce a key challenge that still confronts leaders—that of disciplined execution of business strategy in a world of increasing external ambiguity and complexity.

The pressure on companies and their leaders to deliver in the near-term will not abate in an increasingly competitive business environment. Hence, the paper could investigate in further depth how to appropriately balance emerging “important leadership competencies” with what may be seen as less fashionable internally focused competencies.

How we develop our leaders to meet these new competency requirements presents a great opportunity for Woodside and its industry peers, but also a big challenge. Clearly, there will be a need to shift the education and development of our leaders within the oil and gas industry, building on the current strong focus on technical and commercial excellence and diversifying into a broader range of leadership competencies.

## 7. List of Interviewees

- William Allen, senior vice president, Group Human Resources, A.P. Møller-Mærsk A/S
- Jan Babiak, independent non-executive director and previously global head of Climate Change Practice, Ernst & Young
- Glenn Barbi, vice president, Sustainability, The Office of Global Sustainability, Becton Dickinson
- Fred van Beunigen, director, Strategic Marketing, Akzo Nobel
- Andrew Brandler, CEO, CLP Holdings
- Mary Capozzi, senior director, Sustainability and Corporate Responsibility, Best Buy
- Chris Coles, partner, Actis
- Vivienne Cox, independent non-executive director and chairman
- Frank Douglas, executive vice president, Global Human Resources director, Misys
- Anne Erni, head of Leadership and Diversity, Bloomberg
- Donna Gent, Leadership, Learning & Diversity (EMEA), Bloomberg
- Stefano Giolito, global director, Sustainability, Unilever
- Peter Gutman, global head of Energy & Environment Principal Investment, Standard Chartered Bank
- Shawn Heath, chief sustainability officer, Duke Energy
- Ron Herbst, global head, Energy & Sustainability, Deutsche Bank AG
- Henrik Hjorth, corporate vice president, Global Talent Development, Novo Nordisk A/S
- Neil Holloway, head of Business Strategy, Microsoft International
- Emma Howard-Boyd, director, Sustainable Investment and Governance, Jupiter Asset Management Ltd
- Colin Melvin, chief executive officer, Hermes Equity Ownership Services Ltd
- Mark Moody-Stuart, chair, Hermes Equity Ownership Services Ltd and chair, Foundation for the UN Global Compact
- Anant Nadkarni, vice president, Group Corporate Sustainability, Tata Council for Community Initiatives
- David North, executive director of the Sustainable Consumption Institute at the University of Manchester, previously UK Corporate Affairs director Tesco
- Gill Rider, president, The Chartered Institute of Personnel and Development (CIPD)
- Jeanna Shaheen, vice president, Talent Management, Duke Energy
- Penny Shepherd, chief executive, UK Sustainable Investment and Finance Association (UKSIF)
- Christina G. Sorensen, senior vice president, DONG Energy Wind
- John Spinnato, vice president, NA Corporate Social Responsibility, Sanofi US
- Anil Srivastava, COO, Windreich AG, previously CEO Areva Renewables
- Graeme Sweeney, director, Ardnacraggan (Energy Services) Ltd, retired executive vice president CO2 for Royal Dutch Shell
- Jim Walker, director of programs and strategy, The Climate Group

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