

Sustainability Intelligence (SQ)

Responsible Leadership in Process Industries

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ODGERS BERNDTSON

SUSTAINABILITY INTELLIGENCE (SQ) IN PROCESS INDUSTRIES

Corporate leaders are already required to demonstrate IQ and EQ. But as success on the sustainability front becomes even more vital to remaining competitive, driving consumer demand, and complying with stringent regulatory requirements, **Sustainability Intelligence (SQ)** is going to be the next leadership competency in great demand.

What does this mean for chemical, life sciences and process ingredients companies? Safeguarding the environment for future generations is a key component of the UN's 2015 Sustainable Development Goals. Any company that converts raw materials into industrial chemicals or uses chemicals in its manufacturing processes has to consider how their business is impacting terrestrial ecosystems and water supplies, and how best to avoid negative externalities like industrial pollution, land degradation and biodiversity loss. This will require a focus on sustainability and, in the process industries, responsible sourcing.

So, what are process industry companies already doing to implement and report on their sustainability practices and what kind of executive is stepping into the sustainability vanguard?

Odgers Berndtson interviewed Global Chief Procurement Officers from chemical, ingredient and other process companies to understand how the industry's views on sustainability are evolving and how companies are incentivizing their suppliers, executives and employees to fulfil their sustainable supply chain obligations.

In addition, Odgers Berndtson compiled information from public sources on 29 of the world's top chemical companies for insights into their sustainability practices, from reporting to executive pay. This research reveals that **process industry executives recognize that they have a moral and professional responsibility to drive sustainability** through their entire supply chain and are working towards this goal.



DOUBLING DOWN ON THE ‘TRIPLE BOTTOM LINE’

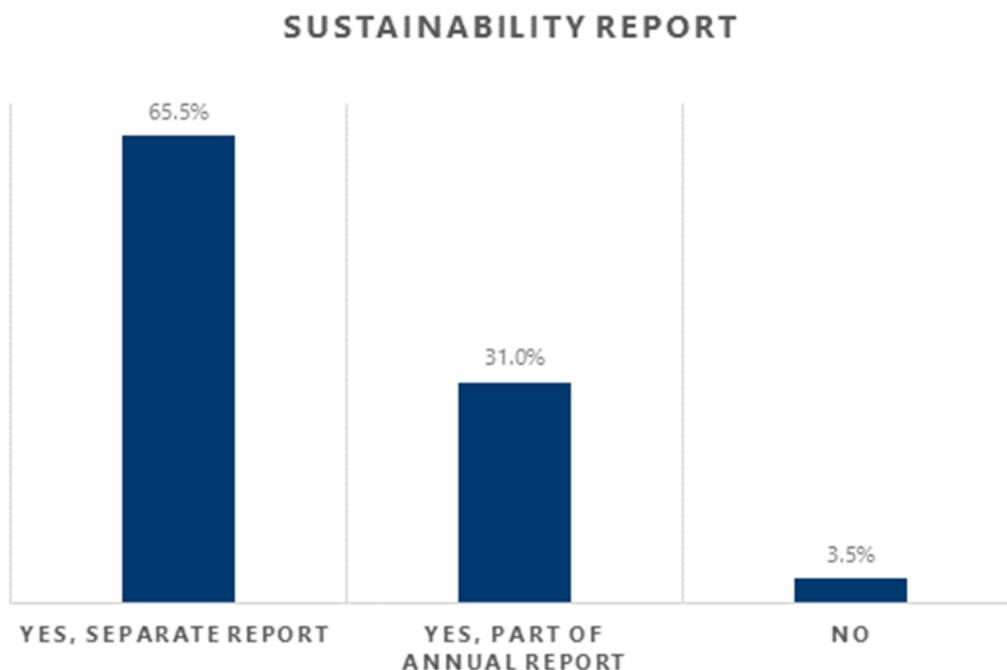
While companies are always concerned with their financial performance, many now recognize the benefit of taking a ‘triple bottom line’ approach to focus on planet and people as well as profit. Setting targets and performance goals in all three spheres: social, environmental and financial, helps companies take a broader perspective on how their business affects the world while continuing to generate greater business value. As one executive noted,

“The key is to build sustainability and profitability at the same time – that is the catalyst for becoming ever more sustainable as a business.”

While the phrase “triple bottom line” is not new, the approach is gaining favor as an increasing number of customers, consumers and candidates throw their support behind companies that align with their values. Companies that ignore these considerations will undoubtedly lose business over time.

As companies like L’Oreal and Unilever have shown, paying attention to people and planet can also translate into reduced costs, increased brand loyalty and lower employee turnover through the creation of a more inclusive and welcoming culture.

Sustainability and people-related targets are front and center on most corporate agendas and this is evidenced by their growing prominence in Annual Reports. **96.5% of companies report on their sustainability annually and 65.5% produce a separate sustainability report.** Some companies, however, still maintain a “greenwashing” approach to sustainability, only reporting good news stories without setting clear targets on how to become a more responsible business.



Sustainability indices only make sense if they are accompanied by a clear set of sustainability goals. As one CPO commented: **“True sustainability comes from tackling issues, not just from sharing good news only.”** For this reason, Akzo Nobel, for instance, took the decision to step out of a Sustainability Index as it was deemed to be a “tick the box” exercise.

The reality is companies can't afford *not* to talk about sustainability. Transformation and digital disruption will be replaced by sustainability and responsible leadership as the most important topic in management circles in the coming years. In the words of one executive:

“Sustainability will soon become an entry ticket to do business.”



MOVING FROM SUSTAINABILITY TO RESPONSIBLE SOURCING

Environmental sustainability is just one piece of the puzzle.

Companies are increasingly taking a more holistic approach. Companies were already talking about setting hard targets for waste, energy or carbon footprint but they are now looking at establishing a circular economy, rethinking physical flows, and implementing stronger labor rights and better diversity and inclusion programs. Some of the CPOs we interviewed spoke about a vision to be fully circular by 2050. As one executive said, “It’s ambitious, yes, but necessary.”

To achieve these goals, prioritizing responsible sourcing and conscious supply chain management will be increasingly important.

At times, sustainable projects will cost more and will involve trade-offs but the executives we spoke to see becoming more sustainable as an opportunity.

When sustainability is linked explicitly to the company’s sense of purpose, all projects – not just those led by the CSR team – must improve its sustainability footprint. In every conversation about a new product, new factory set-up, or new supplier agreement, companies must think about how they can create a positive impact, environmental and otherwise.

The CPOs we interviewed shared a strong conviction that sustainability can deliver top line results. As one said, “Plastic waste can be used for feedstock. Other waste products are just waiting to be used in other innovative ways.” Creative and innovative approaches are required to identify these opportunities.

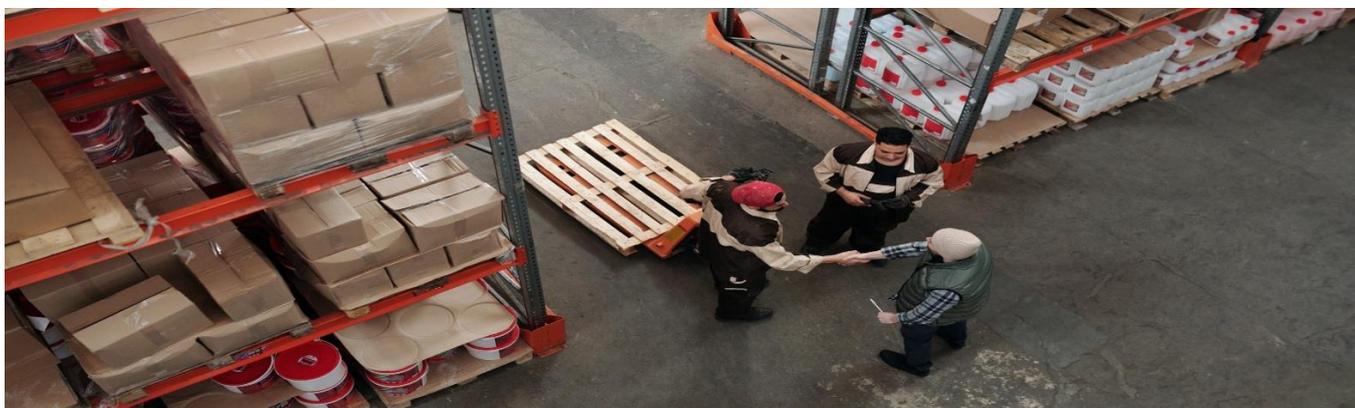
INCENTIVIZING SUPPLIERS

Supply chain transparency is key for the sustainable future of process industries. With consumers increasingly demanding full transparency for their products, process companies need to take a lead in establishing clear, transparent reporting systems throughout their manufacturing and supply chains.

It’s vital to work with suppliers to advance a sustainability agenda. Within chemical industries, sustainability mostly sits within procurement and raw materials are often 40-50% of a company’s costs. The industry has an opportunity to greatly influence sustainability, from strategy to operations, by holding themselves and suppliers accountable. Supporting suppliers in this process can also lead to better and more fruitful partnerships, joint R&D projects and technology development. One executive explained, “We trained our suppliers and put joint objectives in place, especially around reducing plastics, and 40% of our sustainability objectives will be in the supplier’s hands by 2030.”

Supply chain transparency is key for the sustainable future of process industries.

Process companies should put targets in place, help suppliers with training, and provide support where possible but should not be afraid to change suppliers if clear sustainability targets aren’t met. One CPO suggested creating a scorecard for supplier performance to rank them on quality, cost, innovation, delivery and sustainability metrics. How a company approaches sustainability can tell you a lot: [weaker sustainability practices might imply weaker manufacturing processes as well.](#)



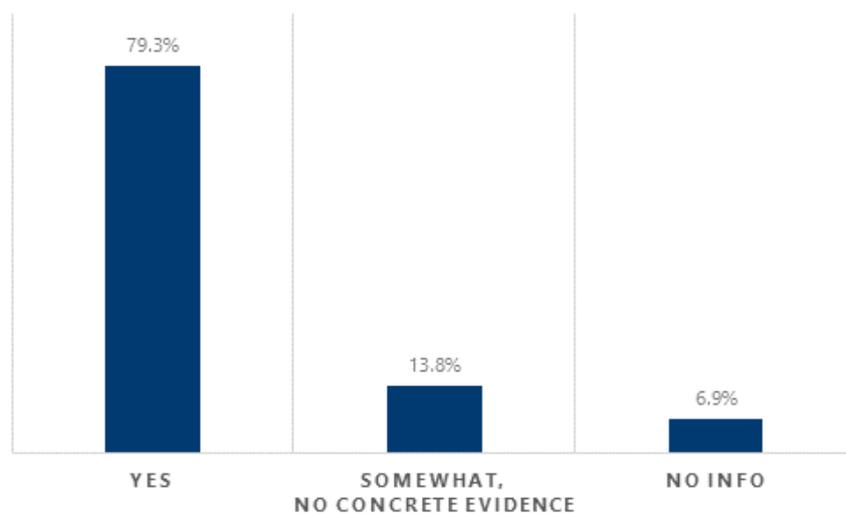
Importantly, companies need to look deep into their supply chains and not just focus on their direct suppliers. Companies should be hands-on with vendors, especially mining and minerals suppliers.

During COVID, process industry companies have had to support their suppliers even more. Some companies negotiated reduced or flexible payment terms to protect their suppliers' cash flow. One interviewee noted, "One positive outcome is that COVID has strengthened our communication and relationships with our suppliers, which will enable quicker decision making down the line."

INCENTIVIZING EXECUTIVES

Many of the CPOs we spoke with highlighted that they're already sourcing sustainable products themselves and are willing to pay a premium for them. So, most executives may already be internally motivated to meet sustainability targets. Still, many companies link around 20% of executive pay to sustainability KPIs. Most companies have implemented these targets in recent years, but all of them see sustainability as a key driver for future executive bonus payout.

EXECUTIVE PAY LINKED TO KPI?



Most companies see sustainability as a key driver for future executive bonus pay-out.

Out of the 29 companies we researched, a majority (79.3%) have concrete salary targets in place that are linked to sustainability goals. This could be related to their results on waste, water and/or energy, but increasingly they also include targets related to people-centric sustainability goals such as diversity, equal pay or the elimination of child labor throughout their entire value chain.



INCENTIVIZING TEAMS

A focus on sustainability can increase employee engagement and help leaders to create better, more nimble and resilient teams. The CPOs we spoke to recommended incentivizing team members by creating a sense of common ownership over sustainability goals.

Create a “dashboard of tomorrow” to assess the capabilities within your team and evaluate which potential leaders have the skills to adopt responsible leadership practices. Identify high-potential employees early on in their careers and cultivate their responsible leadership skill sets.

Finally, don't forget about your “older” employees. It's not just the younger generation that cares about the environment. One of the CPOs we interviewed mentioned:

“I would not have joined if the company didn't care about sustainability”.



SHAPING TALENT ATTRACTION AND RETENTION FOR THE FUTURE

The new generation of executives is looking for a true connection to a company’s purpose, so sustainability targets need to be genuine and deeply rooted. Responsible sourcing needs to run through the corporate DNA. As one CPO noted, “The talent of the future demands it.”

One challenge many CPOs pointed out is that the chemical and process industries are not “top of mind” for many new graduates, nor for highly talented mid-career professionals. With many companies losing out on top talent, to tech, finance, or consumer companies, **many CPOs see sustainability as a key driver for talent attraction.**

Encouragingly, as one CPO pointed out, “These are industries where people can make a true difference”. But companies have to walk the talk – greenwashing doesn’t work. Going forward, recruitment criteria will need to change, with clear sustainability targets put in place for everyone from executive leadership to factory floor.

Most sustainability officers have been promoted from within their organization as they are able to combine their deep industry knowledge with a personal passion for sustainability. However, the tendency to promote from within for sustainability roles has not been without its challenges.

Often, hiring a Sustainability Officer has been an afterthought, without a clear strategy for what to focus on or where to improve. This has often meant bolting a sustainability portfolio onto someone’s current role. In fact, 34.5% of the companies we researched have sustainability responsibilities mixed with other responsibilities instead of a dedicated sustainability executive. Another 10% of companies do not have a clear sustainability role defined.



In addition, it’s only in recent years that the role has begun to be elevated into top leadership circles as companies realize its importance. Currently just over 50% of the companies we researched have a separate role for sustainability and only 34.5% have this role sitting at the executive management level. The Chief Procurement Officers we spoke to highlighted that companies without a clear sustainability role will inevitably lose out to the competition in the coming years.

With a growing consumer demand for sustainable solutions, companies need to build responsible thinking into their corporate structure and hiring strategies.



SQ AND RESPONSIBLE LEADERSHIP PERSONIFIED

The role of Sustainability in executive leadership is new and as yet undefined. Within the process industries, people in sustainability roles come from a myriad of backgrounds including manufacturing, marketing, human resources and public relations. This provides an opportunity for companies, and people stepping into the role, to shape its remit and influence.

The CPOs we interviewed mentioned that a responsible leader needs to have a **passion** for the subject, to be **honest and ethical**, and to have a strong sense of purpose that is inspiring to others. They also need to be **creative, entrepreneurial and curious**.

Critically, they need to have the **courage** to take unpopular positions and point out unsustainable practices. To successfully navigate those hard discussions with the CFO, you need to be using the same vocabulary. As one interviewee put it, “Finance is the grammar of the company and sustainability needs to be linked to this language.”

A responsible leader needs to be **flexible, agile, resilient and accountable**. Importantly, they need to be **highly adept at stakeholder management**. The role requires a leader who can work with teams with different objectives and instil a sense of importance and urgency for the sustainability mission throughout the organization.

Ultimately, a responsible leader in the process industries needs to have the **Sustainability Intelligence (SQ)** to bridge sourcing and product with both finance and corporate social responsibility. That’s the way to embed sustainability priorities into the DNA and everyday activities of a company.



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Yan Vermeulen is a Partner in the Odgers Berndtson Singapore office. As Head of the Global Chemical & Process Industries practice, he drives global strategy and collaboration with Odgers Berndtson's key accounts. As Head of the Southeast Asia Industrial practice, he specialises in senior executive assignments for Manufacturing, Chemical, Electronics and Automotive companies.

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Yan graduated with degrees in Business Administration and Japanese from Rotterdam University of Applied Sciences, and spent a year studying at Kansai Gaidai University in Japan.



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Lucy Harding is a Partner and Global Head of the Procurement & Supply Chain Practice at Odgers Berndtson based in London. The Practice operates across all industries in both the public and private sector.

Lucy has significant experience operating in the procurement and supply chain search environment following 10 years operating in a leading boutique firm. She has successfully completed appointments at mid to director level across a range of leading global companies in both the UK and internationally.

After graduating with an Economics degree, Lucy's early career was spent in an operational procurement role in the FMCG sector.

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