Building Sustainability Into Strategy

Idea In Short

Sustainability has moved from a communications exercise to a board-level strategic requirement, and the decision facing executives is no longer whether to act but how fast to embed it into the operating model. Investors managing tens of trillions of dollars now screen for environmental, social and governance [ESG] performance before committing capital, consumers reward companies that prove their supply chains hold up to scrutiny, and governments are turning voluntary disclosure into law. Leaders who treat sustainability as a bolt-on public relations function will fall behind competitors who treat it as a source of long-term value. The companies pulling ahead share four habits: they commit visibly from the top, build real relationships with stakeholders, set long time horizons for results, and report transparently on both progress and setbacks.

Corporate leaders spent the last two decades treating sustainability as an optional communications layer sitting on top of the real strategy. That framing no longer holds. Investors who once nodded politely at environmental, social and governance [ESG] presentations now build ESG screens into capital allocation decisions, consumers research supply chains before checking out, and governments are converting voluntary pledges into statutory reporting requirements. The shift is not driven by sentiment alone. It reflects a recalculation of risk, competitive advantage and long-term value creation across four groups: investors, consumers, industry peers and governments. Understanding why each of these stakeholders now demands sustainability, and how leading companies translate that demand into operating practice, is the starting point for any executive building strategy for the years ahead.

Why Capital Markets Changed Their Calculus

For decades, most corporate executives assumed that sustainability commitments and shareholder returns pulled in opposite directions, and that belief shaped how boards prioritized capital and attention. That assumption has not aged well. The United Nations-backed Principles for Responsible Investment launched in 2006 with 63 founding signatories representing $6.5 trillion in assets under management [AUM], and growth since then has been consistent rather than sporadic. 1 Asset owners, service providers and asset managers who sign the framework commit to weighing ESG factors across every investment decision, not just in a dedicated impact fund on the side. Executives who still picture sustainable investing as a boutique strategy for a handful of ethics-focused funds are working from an outdated map. Recent survey work among institutional investors and portfolio managers found that most now revise their positions when a company fails to address ESG criteria in its business model, which turns sustainability from a values statement into a portfolio risk factor. The gap between what executives believe about their shareholder base and what that shareholder base actually looks like remains wide, and closing it starts with recognizing that sustainable investing sits inside mainstream capital allocation rather than beside it.

What Each Stakeholder Group Actually Demands

Sustainability pressure on a company rarely comes from a single direction, and that is precisely why it has proven durable rather than a passing trend. Four groups, investors, consumers, industry peers and governments, apply pressure independently, which means a company cannot satisfy one and consider the matter settled. Each group has developed its own non-negotiable expectations, and together they function as a set of parallel strategic requirements rather than a single checklist.

Investors Price the Risk

Large institutional investors evaluate portfolio companies against environmental, social and governance [ESG] metrics because the evidence increasingly links that performance to long-term financial resilience and competitive positioning. McKinsey survey research on the ESG premium found that a large majority of C-suite leaders and investment professionals expect ESG programs to contribute more shareholder value in five years than they do today. 2 The same research found that investment professionals would pay a median premium of roughly 10 percent for a comparable company with a strong ESG record, which puts a concrete number on what used to be treated as an intangible. Major asset managers have also moved beyond disclosure requests to active portfolio decisions, including reducing exposure to activities that carry high sustainability risk, such as coal-fired electricity generation. That shift signals to every company competing for capital that sustainability performance now sits inside the cost of capital calculation, not outside it.

Consumers Reward Verified Impact

Consumer demand for sustainable products has grown steadily, and purchasing decisions increasingly weigh environmental and social impact alongside price and convenience. Products marketed with credible sustainability claims have consistently outgrown their conventional equivalents within the same category, and a meaningful share of consumers say they will pay more for products that demonstrate a positive environmental or social footprint. Younger buyers drive much of this trend, largely because they expect to live with the consequences of decisions made today about climate and resource use. This preference will not stay confined to consumer packaged goods:

1. Retailers face direct pressure to prove supply chain claims rather than simply state them
2. Business-to-business suppliers face indirect pressure as their retail customers push sustainability requirements upstream
3. Service providers face reputational pressure even without a physical product to certify

The practical effect is that sustainability claims now require verification, since consumers and watchdog groups increasingly treat unverified claims as a credibility risk rather than a marketing asset.

Industry Peers Set the Competitive Floor

Large companies increasingly pressure their own chief executive officers [CEOs] to make binding sustainability commitments, and once enough peers in an industry move, staying still starts to look like a competitive liability rather than a neutral choice. The World Economic Forum's stakeholder capitalism initiative brought together more than 120 major global companies to build common metrics for reporting ESG performance, precisely because inconsistent, self-defined metrics were letting laggards claim progress without substance. 3 Thousands of companies worldwide have pledged to raise their climate ambition, and a growing share of large corporations have increased commitments to renewable energy sourcing. Employees also factor into this dynamic, since workers increasingly select employers based on stated purpose, and companies competing for talent cannot ignore what their peers are already offering. Once enough visible commitments accumulate across an industry, the logic and the value proposition behind sustainability stop needing a separate justification.

Governments Codify What the Market Leaves Undone

Regulatory pressure has intensified as governments conclude that markets alone will not internalize the costs of environmental and social externalities. Recent Harvard Business Review analysis notes that corporate sustainability efforts face near-term political headwinds in some markets, even as the underlying business case for managing environmental and social risk remains intact over a longer horizon. 4 At the same time, other jurisdictions have moved toward mandatory supply chain due diligence requirements that penalize companies for failing to identify and address sustainability risks across their operations. The direction of travel, even accounting for short-term political swings, points toward more codified requirements rather than fewer. Companies that build sustainability governance now, ahead of a binding mandate, avoid the scramble that comes from retrofitting compliance systems under deadline pressure later.

Turning Commitment Into Operating Practice

Recognizing stakeholder pressure is the easy part; building an operating model that responds to it is where most companies stall. A workable sustainability strategy usually follows a sequence rather than a single grand announcement.

Start With an Honest Audit

The first step is examining current business practices to identify the company's actual impact on the environment and the communities where it operates. This audit should cover policies, operations and supply chain relationships, not just the parts of the business that are easiest to measure. Some issues will be immediately visible, such as waste generation or emissions, while others require deeper investigation, such as labor practices several tiers down a supply chain. A company with no prior track record in a given community is not disqualified from acting; it simply starts from a lower baseline and has more room to show measurable improvement.

Engage Stakeholders and Set Real Goals

Stakeholders, including employees, suppliers, community organizations and customers, often understand operational realities that a strategy team working in isolation will miss. Involving them early surfaces ideas for genuine change and produces goals that are realistic rather than aspirational. Goals should be specific, time-bound and prioritized based on urgency and impact rather than ease of achievement. A useful goal-setting exercise ranks issues by two dimensions:

- Time sensitivity, meaning how quickly inaction compounds the problem
- Impact, meaning how much a given fix changes the company's overall footprint

Plan, Execute and Report Without Flinching

Once goals are set, a company needs a realistic implementation plan with a defined time frame, since sustainability programs measured in years rather than quarters tend to produce durable results. Progress tracking matters as much as the initial plan, because a program that drifts from its targets without correction loses credibility internally and externally. Sharing progress publicly, including setbacks, demonstrates that a company treats sustainability as an operating discipline rather than a marketing campaign. Companies that publish honest progress reports, rather than only celebratory updates, tend to retain stakeholder trust even when a specific target slips.

Four Principles That Separate Leaders From Laggards

Dr. Ioannis Ioannou, associate professor of strategy and entrepreneurship at London Business School, has spent years researching how companies embed sustainability into their organizational culture rather than treating it as a side initiative. 5 His research identifies four principles that distinguish companies where sustainability becomes structural from companies where it remains cosmetic.

Commitment From the Top

A company's governance structure has to reflect genuine commitment to sustainability as a purpose, not just a stated value. Leaders at the top set the tone and signal whether sustainability receives serious monitoring and resources or token attention.

> And leaders who set ambitious goals are more likely to inspire, enable and empower their people to find innovative solutions

That framing turns commitment into a management discipline rather than a slogan.

Building Relationships, Not Managing Complaints

Companies with a genuine sustainability purpose focus on understanding stakeholder needs and building purposeful engagement, rather than reacting only when a stakeholder group organizes a protest or a boycott.

> We're far beyond the world where you only deal with employees when they strike or with customers when they boycott

Treating stakeholder engagement as an ongoing investment, rather than crisis management, builds relationships that function as intangible assets feeding directly into the innovation process.

Committing to a Long Horizon

Responsible leaders communicate that sustainability change requires time, effort and sustained investment, rather than positioning it as a quick strategic win. Framing the timeline honestly earns patience from stakeholders and external legitimacy that a company chasing short-term optics never achieves.

> Communicating this will afford you external legitimacy as well as the patience of your stakeholders

That patience becomes an asset when a program hits an inevitable setback partway through execution.

Reporting With Real Accountability

Companies strong on sustainability report social and environmental metrics more consistently than peers, giving investors a complete and trustworthy picture of the business rather than a curated highlight reel.

> Being accountable allows you to bring more people aboard, and ultimately, impact more lives

Transparency extends beyond a company's own operations to its supply chain, since demonstrating adherence to environmental and human rights standards across suppliers carries as much weight as internal practice.

Where People and Technology Fit

None of these four principles function without the two resources that make sustainability measurable and executable: people and technology. Sustainability is a genuinely multidimensional problem, and reducing it to a narrow technical fix, such as a single emissions-reduction tool, tends to produce pseudo-solutions that miss the underlying complexity. Technology supplies the data infrastructure that lets a company measure its footprint across a full supply chain rather than relying on estimates, while people, from board members to frontline employees, supply the judgment and follow-through that data alone cannot provide. Diverse leadership correlates with stronger sustainability outcomes in practice, since companies recognized among the most sustainable globally frequently also show stronger representation of women in senior roles and on boards. BlackRock's long-running commentary on long-term investing reinforces a related point about horizon: capital that stays invested through cycles compounds value in ways that short-term positioning cannot replicate, and the same patience applies to sustainability programs built for durability rather than a single reporting cycle. 6 Executives who invest in both dimensions, building the technical measurement capability and the leadership culture to act on what it reveals, put their companies in a materially stronger position than those chasing a single sustainability announcement.

- 1Become A Signatory
- 2The ESG Premium: New Perspectives On Value And Performance
- 3Measuring Stakeholder Capitalism: Towards Common Metrics And Consistent

- Reporting Of Sustainable Value Creation
- 4Corporate Sustainability Is In Crisis. What Should Companies Do Now?
- 5Five Minutes With The Faculty: Ioannis Ioannou
- 6Larry Fink's 2026 Annual Chairman's Letter To Investors

Summary

Sustainability has stopped being a reputational add-on and become a structural feature of business strategy. Investors representing enormous pools of capital, consumers who research supply chains before buying, employees who choose employers by purpose, and regulators writing disclosure into law are converging on the same demand: prove the impact, not just the intent. Companies that treat environmental, social and governance [ESG] performance as a genuine input to decision-making, backed by clear commitment, real stakeholder relationships, patient time horizons and honest reporting, tend to build more durable advantages than those chasing short-term sentiment. The technology and people dimensions of this shift matter as much as the environmental one, since data systems and workforce culture determine whether commitments translate into results. Executives who wait for certainty before acting will find that investors, customers and regulators have already moved on without them.