The Challenge of Making Sustainability Work

The New Leadership for

CORPORATE SUSTAINABILITY GOVERNANCE & STRATEGY IMPLEMENTATION

Fundamentals for Developing a Corporate Education Program

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Content

1 INTRODUCTION

1.1 How to recognize a Sustainable Company

Empirical evidences of existing positive correlation between the best practices of sustainability - Environmental, Social & Governance (ESG) - have been subject of many studies from the academy and the businesses, as well.

Amid intensive pressing from Investors and other Stakeholders, Companies are in a hurry to be recognized as sustainable ones. Some of them are really engaged on Environmental, Social and Governance issues. Unfortunately, there has a large number of Companies that does not.

These, are shortcutting sustainability reputation branding creation throughout an intense, propagandist use of a semiotic-oriented communication strategy. This misuse submits corporate reputation to the *law of reversed effort*[1]*,* instead: it triggers external expectations augmentation and company comes increasingly investing in propaganda for the real, true ESG internal performance is not aligned to an externally misbranding sold corporate image.

Innovative investment strategists, from Pension Funds to Asset Management to Private Equity, have increasingly learning how to separate the ones overinvesting in propaganda from another, deeply committed to ESG active development. They are in search of new sustainable sources of gaining long-term competitiveness by differentiation. And empty-hand propaganda certainly is not a source of durable, sustainable competitive advantage.

From looking within a Sustainable Company manage to communicate more effective, enduring corporate responsibility image to all stakeholders. And when it comes true the reputation is build. Some characteristic qualifies a company to be from within promptly recognized as a Sustainable Corporation:

I. Managers at all level naturally consider sustainability practice and initiatives as part of their daily job;

II. Company quality and productivity system incorporates sustainability strategies, goals, rules, procedures, indicators and metrics;

III. Company corporate strategy incorporates sustainability goals on environmental, social and governance (ESG) and increasingly makes money from these;

IV. Company sustainability goals are regularly detailed, quantified, measured, monitored and reported to stakeholders;

[1] Alan W. Watts – The Wisdom of Insecurity, Pantheon Books, 1951.

v. Company sustainability performance is integrated to financial performance;

vi. Company compensation system links C-level executives and middle managers reward to sustainability performance;

vii. Company internal culture changes management terminology: accountability, environmental accounting, shareholder engagement; water and carbon footprint; reputation management, etc.;

viii. Company regularly partnerships with outside stakeholders;

ix. New products and services originated from environmental and social initiatives contribute to the company's currently revenue.

Looking from the external perspective - regulators, clients, investment strategists, banking and suppliers, etc. - a Sustainable Corporation is usually recognized for its ability and promptitude:

i. To capture external drivers of change and transform them into sustainability business opportunities;

ii. To improve and enhance accountability, transparency and investor trust aiming to positively influence market value and share liquidity;

iii. To evolve corporate risk-management framework from the traditional business continuity to the corporate sustainability platform perspective;

iv. To identify and explore in the entire value-chain new sources of competitive advantage by differentiation throughout environmental and social innovative product and service development;

v. To assure capital markets prime access by becoming an international benchmark on sustainability governance standards achievement;

vi. To explore positively the relationship between Sustainability Governance and Capital Expenditures (Capex) funding;

vii. To outperform the Return on Sustainability Governance & Strategy (ROGS)[2] by creating and exploring sustainability-based differentiation strategies into the entire value chain;

[2] Term Created by Jose Antonio Chaves, 2009.

VIII. To create visible, measurable, reportable and communicable sustainability value for the upstream and downstream players and government and NGO stakeholders as well;

IX. To build internal and external sustainability reputation, to be measured in terms of cost of capital, client satisfaction, community confidence, exports revenue increases and brand value;

X. To be recognized as a leading corporation on knowledge and talent capital development and retention practices.

1.2 What matters on Corporate Sustainability

Making sustainability work is the ultimate challenge board members and senior executives face amid continuous NGO and other stakeholders intensive pressuring for top-ranking the social and environmental issues on the corporate strategy agenda.

To overcome that challenge the first path is to develop new leaders for corporate sustainability strategy implementation. This means to build internal capabilities for designing, planning and executing the sustainability strategy.

1.2.1 Boston Consulting Group – MIT Sloan Survey on Sustainability

One business research provides the paradigm by which corporate sustainability is frameworked here: a Boston Consulting Group – MIT Sloan survey, which in the fall of 2009, has interviewed 50 global thought leaders and more than 1,500 worldwide C-level executives.

The survey has focused on corporate senior executives' sustainability awareness and practice. And bring good and bad news. The good is some companies are acting decisively and winning from sustainability strategies; the bad one is that most companies either are not acting or are falling on sustainability strategy execution.

The Boston Consulting Group - MIT Sloan Management Review collaborative survey[3] shows that many thought leaders and survey respondents viewed sustainability as an unique business issue, strategically and economically. But claim why decisive and effective corporate action is lacking.

The research points to four root-causes that may explain reasons why companies are struggling to tackle sustainability more decisively. First, companies often lack the right information upon which to base decisions. Second, companies struggle to define the

[3] The survey results from a 2009 in-depth interviews with more than 50 global thought leaders and more than 1,500 worldwide executives. Sources: MIT Sloan Management Review, Fall 2009. http://sloanreview.mit.edu/; The Boston Consulting Group - The Business of Sustainability: What It Means to Managers Now, September 2009. www.bcg.com.

business case for value creation. Third, when companies do act, their execution is often flawed. Fourth, necessary capabilities are in short supply.

1.2.2 Companies do not Understand What Sustainability Is

According surveyed executives companies do not understand what sustainability is — and what it really means to the enterprise. The survey has revealed a pervasive lack of understanding among business leaders of what sustainability really means to a company. Managers lack a common fact base about the full suite of drivers and issues that are relevant to their companies and industries. More than half of those surveyed stated a need for better frameworks for understanding sustainability, and capacitation development as well.

1.2.3 Difficulty on Modeling the Business Case on Sustainability

Managers has said about the difficulty on modeling the business case — or even finding a compelling case — for sustainability. Among those surveyed who considered themselves experts in sustainability, as well as most thought leaders - said that their company had found a compelling business case — one that reflected multiple tangible and intangible costs and benefits — for sustainability.

However, the majority of survey respondents overall disagreed: almost 70 percent said that their company did not have a strong business case for sustainability. Of these respondents, 22 percent claimed that the lack of a business case presented their company with its primary barrier to pursuing sustainability initiatives.

Why do companies struggle in their efforts to develop a business case for sustainability? The survey uncovered three main challenges that trip up companies.

I. The first challenge is *forecasting and planning beyond the one-to-five-year time horizon typical of most investment frameworks*. Actually, calculating the costs and benefits of sustainability investments over time frames that sometimes span generations can be difficult with traditional economic approaches.

II. The second challenge is that companies find difficult enough to identify, measure and control all of the tangible facets of their business systems. So they often do not even attempt to model intangibles or externalities such as the environmental and societal costs and benefits of their current business activities and potential moves in sustainability. This hinders their ability to get a true sense of the value of investments in sustainability.

III. The third major challenge is *planning amid high uncertainty*. Factors contributing to uncertainty include potential changes in regulation and customer preferences. Strategic planning, as traditionally practiced, is deductive — companies draw on a series of standard gauges to predict where the market is heading and then design and execute strategies on the basis of those expectations. But sustainability drivers are anything but predictable, potentially requiring companies to adopt entirely new concepts and frameworks.

1.2.4 Execution is often flawed

Even if companies surmount the first hurdles impeding action, they often stumble over the third obstacle: capacity for execution.

While it is still early days in terms of judging the effectiveness of sustainability strategy execution, interviews and survey highlighted three main obstacles in executing sustainability initiatives.

I. The first is *overcoming skepticism in organizations*;

II. The second obstacle in execution *is figuring out how to institutionalize the sustainability agenda throughout the corporation*;

III. The third major obstacle cited is *measuring, tracking and reporting sustainability efforts*. Some of these barriers will accompany any major change effort in corporate strategy.

1.2.5 Necessary Capabilities Are in Short Supply

According to interviewees in the thought leader group, companies will need to develop and master a multitude of new capabilities and tools - and take a number of actions - if they are to execute their sustainability strategies successfully. A few of the critical capabilities are highlight below:

I. Adopting a broad systems-thinking approach to their business. Actions could range from deploying frameworks that allow for the modelling of systemwide effects of sustainability initiatives over the long term to forming more-effective partnerships and alliances and working in more concerted ways with stakeholders, regulators, and other influencers;

II. Adding scenario-planning capabilities that allow the company effectively to build resilience to unpredictable future environments and external shocks, such as sharp swings in commodity prices;

III. Developing tracking, measuring, and reporting capabilities, particularly as the bar for transparency continues to rise;

IV. Retooling R&D, product development, and sales and marketing to reimagine how products are designed, made, used, and recycled;

V. Enhancing capabilities in innovating organizational models and management practices. This includes reorienting incentive and reward systems to promote long-term strategic and tactical thinking and multidisciplinary collaboration. It also includes knowing how and when to partner to achieve maximum advantage.

In the near future, these capabilities and tools may represent table stakes for managers and organizations. Already, many best-in-class companies possess these skills.

1.3 Lessons from First-Class Sustainable Companies[4]

First-class sustainable companies understand and articulate sustainability's impact on their organization. Leaders in sustainability gather the full set of facts and incorporate this knowledge into how they frame and define sustainability strategically and economically.

They also adopt a systemwide view in understanding the relevant issues and needs of all their stakeholders. For example, they push suppliers to be better stewards of sustainability - often even selecting them on that basis. And they form partnerships and alliances with critical influencer groups (such as regulators, NGOs, experts, communities, and other companies) so that they can learn about and jointly develop innovative solutions.

Mining firm Rio Tinto, for example, leads an industrywide initiative in sustainable development and has ties to the International Council on Mining and Metals.

Create a robust business case for sustainability. In developing the financial case for sustainability, first-class companies speak the language of business: value creation. They assess their sustainability strategies as they would any investment, systematically evaluating each value-creation lever - including the intangibles, which are more difficult to model.

Make effective trade-offs between short-term expectations and longer-term impact, bringing the same long-term mind-set to sustainability investment decisions as they do to other routine long-term bets. They take into account in all external factors and system effects when analyzing the business case for sustainability, assessing the full set of costs and benefits.

Grounded in the facts and a solid business case, they publicly commit to ambitious goals that they measure and report - and they demonstrate that sustainability investments produce real business results.

[4] Source: MIT Sloan Management Review, Fall 2009. http://sloanreview.mit.edu/; The Boston Consulting Group - The Business of Sustainability: What It Means to Managers Now, September 2009. www.bcg.com.

Holistically integrate their sustainability strategy throughout the business.

Believe that sustainability is a source of value creation rather than merely a legal imperative.

Work to integrate it deeply into their culture and embed it holistically into their strategy and all relevant aspects of their operations, while supporting it through strong, top-down commitment from the executive leadership team.

In sum, the companies that are winning with their sustainability approaches are embracing aggressive strategies, adapting their organizations, and creating new sources of advantage to deliver measurable business results.

1.4 Corporate Sustainability Strategy & Value Creation

First-class sustainable companies see Business Strategy and Financial Strategy just as part of a systemic approach which incorporates the investor expectations, including the engagement in the company governance structure and strategic decisions.

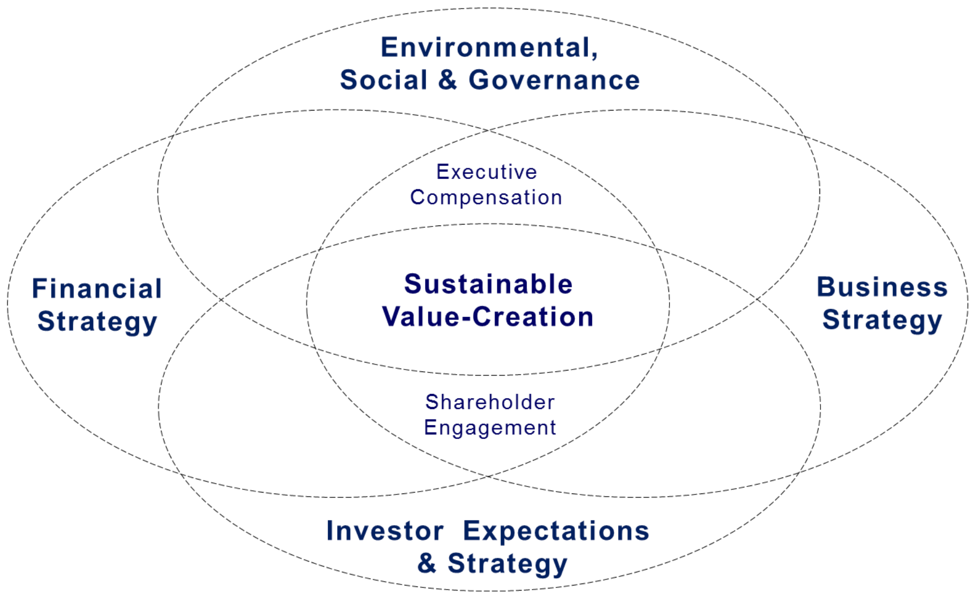

Figure 1 – Sustainability-Oriented and Value Creation Platform

The Corporate Governance model incorporates sustainability risks as environmental, social, reputation, ethics and links executive compensation programs to the sustainability performance.

2 PROGRAM OBJECTIVES

To reduce the ***gap between the sustainability strategy and its execution*** is the major effort companies' need undertake to be recognized as a Sustainable Corporation. This assumption provides the rationale for this "New Leadership for Corporate Sustainability Strategy" challenge.

The trustworthiness of the survey' conclusions stimulate and provide arguments and rich substance for the Program's main goals:

I. To help executives to know, understand and top-ranks corporate sustainability in their agendas, and seek for ways of making value from environmental, social and governance strategies;

II. To support the company process of creating and internalize the vision and the culture of corporate sustainability governance, strategy and finance;

III. To develop executive capabilities and incorporate ESG management competences aiming to reduce the gap between corporate sustainability strategy and its execution;

IV. To develop knowledge and practice competences about the sustainability strategy key-areas, measurement tools, risk-assessment, goals and objective setting, stakeholder engagement, communication and reporting.

V. To make as visible as possible the connection between Sustainability Strategy and Financial Performance.

2.1 Who Should Attend

The program addresses competencies in Corporate Sustainability Strategy, Finance and Governance' knowledge and practice; either in the phase of conception-planning and in the phase of execution-monitoring.

Private, public and NGO sectors could take advantage of the program, mainly:

I. Environmental-intensive sourced business units and the high-risk-susceptible ones' senior professionals are expected to get immediate value in attending the program and return their units to promptly to start practicing sustainability strategy, finance and governance;

II. Knowledge professionals focusing ESG, like those from law office, auditing and accounting and business communications certainly would get impulse and upgrade in their performance;

III. Managers from value-chain oriented companies - upstream and downstream - facing competitiveness pressure from quality and productivity also would rapidly retain and internalize practices and tools for identifying and exploring competitive advantage opportunities from sustainable initiatives;

IV. Executives from the capital and financial markets - Investment strategists, stock analysts, fund managers and project financing officers would broaden their sustainability understanding by learning how the company conducts its daily operations in a sustainability-based management approach. And align their expectations with the internal public and the other stakeholders.

2.2 Methodology and Dedication

Attendees will be demanded 80 hours of immersed class study in two moments, of a business week each, in Brazil and Switzerland.

Distance learning support, during the time between the first and the second immersion, will demand an average 80 hours, including networking group studies.

To pursue outstanding knowledge network exchange the immersion activities, to be developed in Brazil and Switzerland, will be separated by two months.

2.3 The Expected Results

As a result of the sustainability-endeavor it is expected people will be able bring back to their daily activities new paradigms, approaches and tools on Corporate Sustainability Strategy, Finance & Governance planning and execution. This should occur throughout the application of a triple bottom line-oriented methodology designed from the perspective of the company' shareholders.

From the career development's perspective, attending professionals might expect:

I. To enrich and enhance personal and business network by interacting with other senior officers playing relevant positions on companies, NGO, banking and consulting firms.

II. To corroborate personal knowledge about corporate sustainability strategy developing and execution.

III. To access the state-of-the-art knowledge, as well as the best practices on sustainability governance.

3 PROGRAM FRAMEWORK

To address these competences towards making sustainability work the challenging-participants must be familiarized with a comprehensive, reliable methodology to develop, internalize and execute the Corporate Sustainability Strategy, Finance & Governance best practice.

Figure 1 portraits the operations field where executives are challenged to develop and implement the corporate sustainability strategy. It also breaks-down the process of making sustainability work into a learning-platform, in a way it may help managers to incorporate the best of knowledge and practices on ESG.

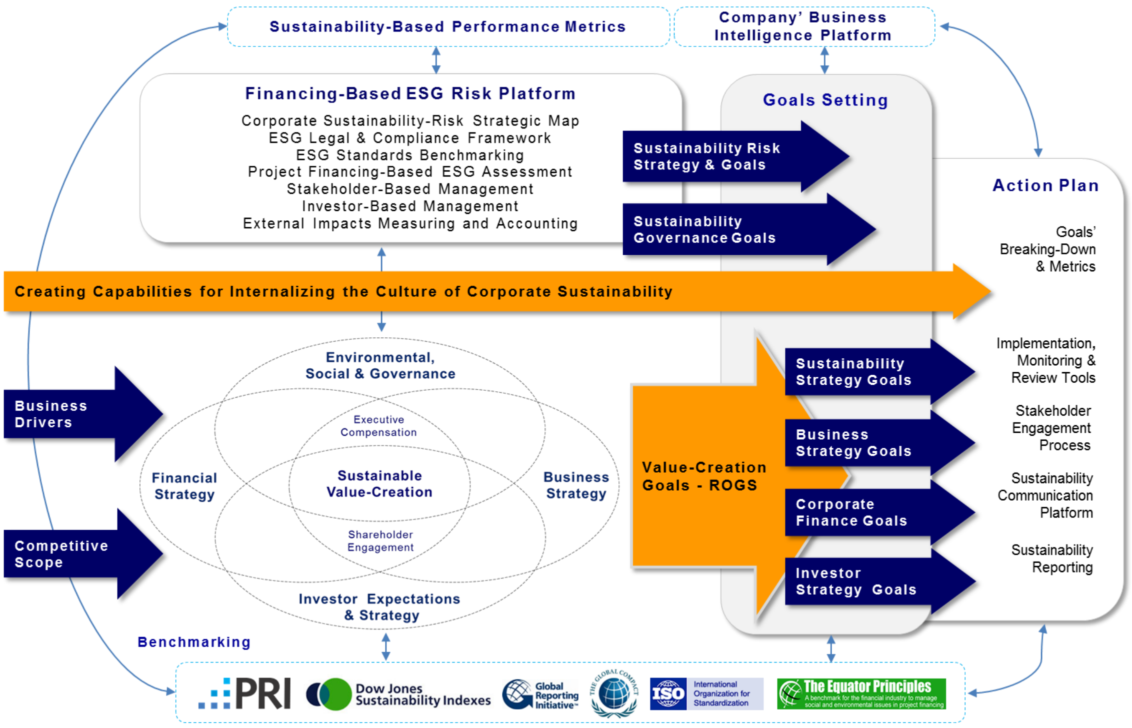

Figure 2 - Making Sustainability Work
Corporate Sustainability Strategy Framework and Comprehensiveness

In approaching the following paths attendant executives will learn about and use new concepts and practices on sustainability management. Knowing how to identify and to build hard-to-imitate sources of ESG-based competitive advantage across the entire upstream-downstream business value-chain is the genuine differentiation strategy leading managers are now invited to pursue when attending to the program.

3.1 Creating Capabilities for Internalizing the Culture of Corporate Sustainability

Creating and internalizing the Culture of Corporate Sustainability mainstreams the development processes. As usual in strategic planning methodologies, C-level executives and internal relevant managers are required to participate, aiming to align strategic concepts and commitments. The cited survey results reinforce this assumption: “most of respondents admit there aren’t enough consensuses about what matters on corporate sustainability”.

The following issues will initially top the agenda:

I. Developing Leadership Competence for Triple Bottom Line Value Creation;

II. Business Competitiveness Scope, from a ESG perspective: New Competitor’s Threats, New Product & Service, Suppliers’ and Buyers’ Power of Negotiation;

III. Identifying the Sustainability Business Drivers;

IV. Sustainability as a Key-Driver for Innovation;

V. Mapping and Advantaging on Sustainability Business Drivers;

VI. Creating the Corporate Sustainability Vision;

VII. The role of the Chief Sustainability Officer.

Creating and internalizing the Culture of Corporate Sustainability must be considered as an entire process’ support activity as it showed throughout Figure 1.

3.2 Corporate Sustainability and Financial Performance Benchmarks

To assure competitive access to capital markets and project financing is a major economic goal of the sustainable Company. Upgrading its level of corporate sustainability governance and reaching international financial standards will certainly lead to the lowering of cost of capital. Also, it leads to long-term shareholder value creation by integrating opportunities and managing deriving-risks from economic, environmental and social factors.

Investor strategist calls this approach *the triple bottom line.* This paradigm was frameworked by important voluntary initiatives: such as *The Dow Jones Sustainability Index*[5] directly addressed to capital market investors; *The Equator Principles*[6] as an ESG standard for project financing; *The Global Compact*[7]; the *UNEP Finance Initiative*[8] - a Financial and Insurance industries commitments to the ESG initiatives; and *The Principles for Responsible Investment*[9].

The convergence of the institutional sustainability vectors' previously mentioned is worldwide-accepted as a benchmark for the triple-bottom-line strategy, finance, governance and sustainability performance rating-framework. Such approach also includes modeling ESG Best Practices from Instituto Ethos, Global Reporting Initiative and Reputation Institute, etc.. Such a convergence also provides the basis for developing a Sustainability Performance Metrics System, to support Corporate Sustainability Governance. This represents the whole methodology approach to make sustainability work and conduct to company's outperformance, in terms of shareholder value delivering.

3.3 Mapping and Defining Sustainability Strategy Key-Areas

The third phase of the process focus on the definition of the sustainability strategy key-areas through the triple bottom line. To address it two sources of competitive advantage on sustainability initiatives can be explored:

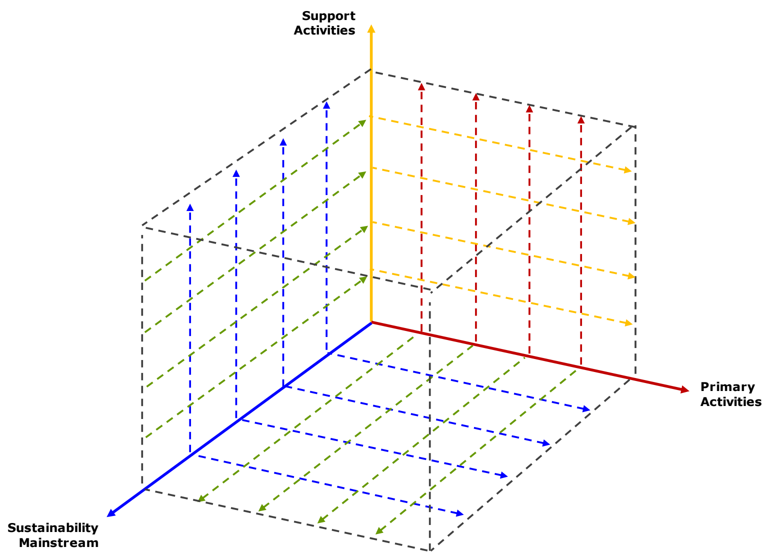

Figure 3 - Corporate Sustainability Mainstream & Value-Chain Intersection Paradigm

[5] Dow Jones Sustainability Group Index - *www.sustainability-index.com*
[6] www.equator-principles.com
[7] www.unglobalcompact.org
[8] http://www.unepfi.org/index.html
[9] http://www.unpri.org/

Firstly, the Value-Chain as a Source of Sustainability Competitive Advantage: From the traditional Porter's competitive advantage paradigm comprehending Primary and Support Activities to the Knowledge Capital Activities of today's economic environment.

Secondly, the concept of Corporate Sustainability Mainstream, as a sparking tool, is introduced for creating a tridimensional approach to the bi-dimensional Porter's matrix.

In doing so, the importance of Corporate Sustainability Governance and Finance perspectives emerges as new key-landscapes for scenario design, goal setting and objectives detailing. At this moment people companywide are familiarized with such concepts and applications like "Sustainability Accounting", "Triple Bottom Line Balance Sheet", "External Impacts ESG valuation" and "Fiduciary Responsibility".

This phase has an important role on strategic alignment and culture of sustainability consolidation, and feeds the sequential activities as well.

3.4 Finance-Based Sustainability Risk Assessment

A Corporate Sustainability-Risk Strategic Map (Figure 3) surrounds this phase. Here, the Company's Executives are stimulated to map and to relate each of the potential sources of tangible and intangible strategic risk. To transform this business intelligence in competitive advantage is a natural consequence.

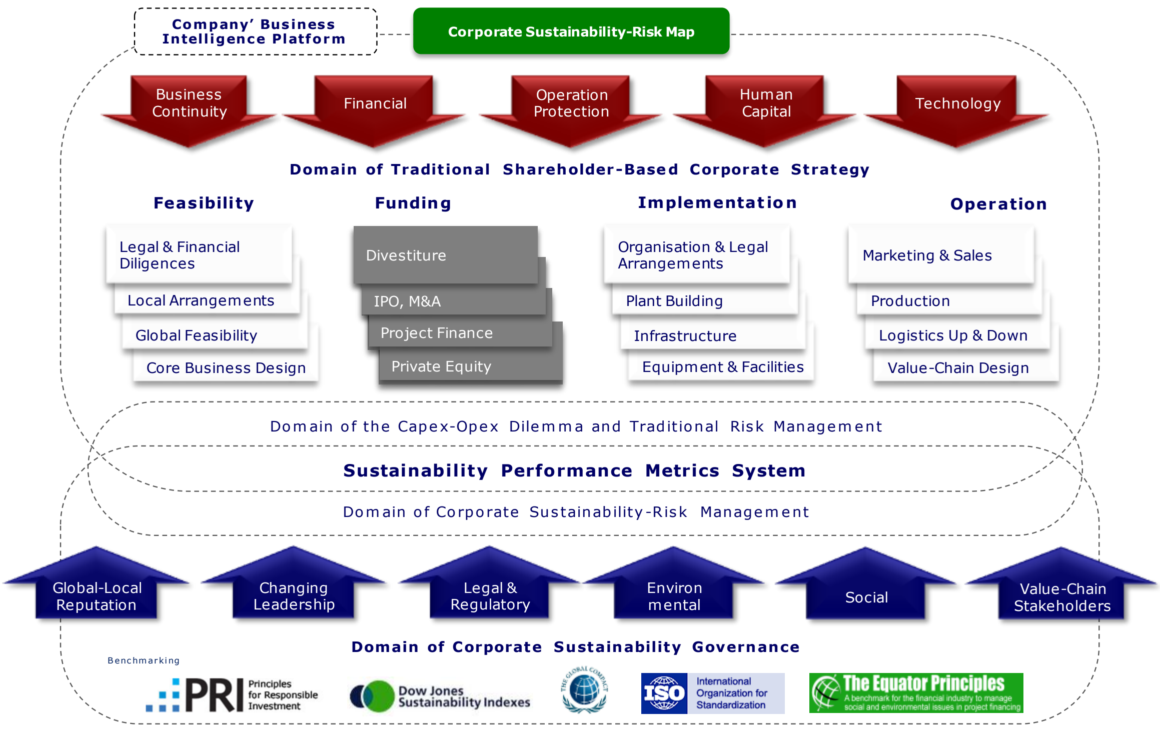

Figure 3 - Corporate Sustainability-Risk Strategic Map

When developing this phase, the executives familiarize and engage with new tools such as Stakeholder-Based Management, Investor-Based Management, External Impacts Measuring and Accounting, Gap Analysis and an effective use of Morphological Analysis in SWOT activities and scenario building.

From the natural interaction between the benchmarking of performance and best practices on sustainability and the ESG Risk Assessment framework results the backbone of the Sustainability Performance Metrics System.

3.5 Setting Sustainability Strategies & Goals

Sustainability strategy initiatives become visible throughout the company's value-chain, upstream and downstream; and become real to investors and shareholders by breaking down the ROGS - Return on Sustainability Governance & Strategy.

The Company's Executives in this phase will meet a challenge in broadening their business comprehensiveness and open their mindset to developing and add new approaches on making sustainability work, throughout experiencing the following activities:

3.5.1 Building the Corporate Sustainability Mainstream Paradigm

To introduce and pervade the corporate sustainability paradigm is a typical job of corporate education and training. "The more people know about sustainability, the more opportunity they see in it", said the BCG – MIT Sloan School of Management's survey. In action this people will hear and learn about the following topics:

I. Corporate Sustainability Mainstream Framework;

II. Corporate Sustainability Risk Management Platform;

III. Corporate Sustainability Accounting & Balance Sheet: Sustainability Fund Flow; Social & environmental cost externalization/internalization decision;

IV. Corporate Sustainability Performance Management: Sustainability Metrics & Business Intelligence System; Performance Rewarding.

3.5.2 Value-Chain Competitive Advantages on Sustainability Strategies

The value chain is the dwell where the value creation process lives. Mainstreaming the sustainability drivers over there makes visible fruitful initiatives. And bring ways of measuring ESG results. Further, it permits the establishment of the linkages between them.

Here, the intent is making sustainability real in the company's organizational platform. In this situation, the Porter's classical model of creating competitive advantages - by identifying and exploring upstream-downstream opportunities in the value chain - must be expanded. For In today's networked, knowledge-based economy, the classical Support Activities are fueled by knowledge capital and only a new kind of leadership moves it.

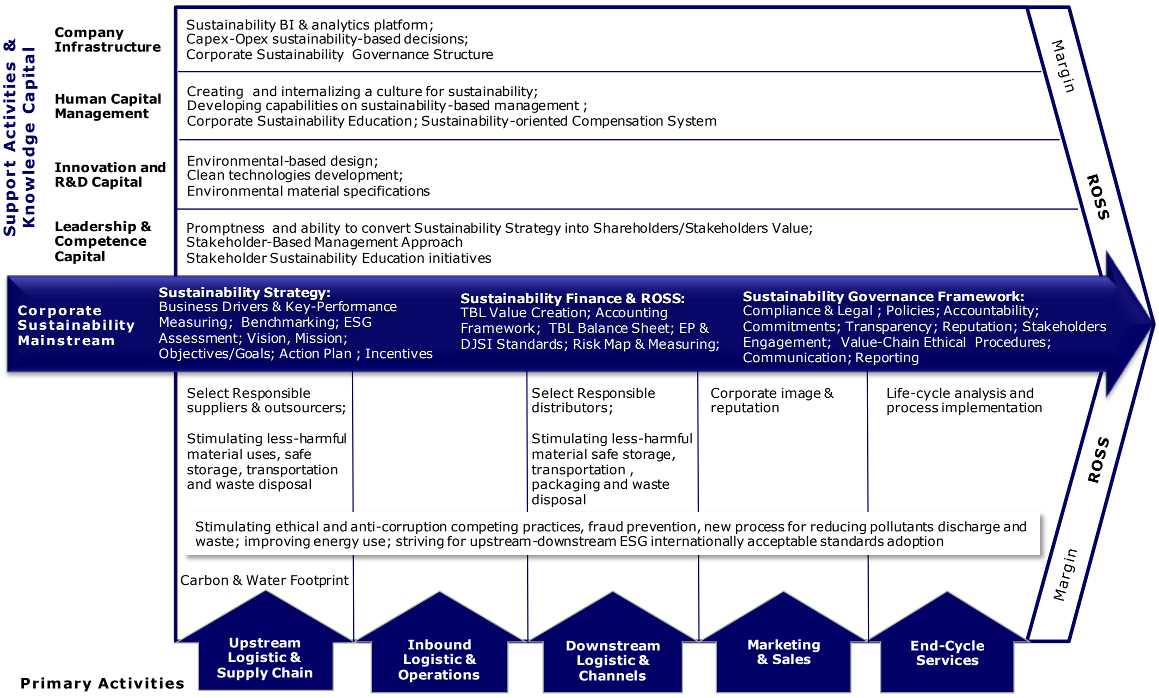

Figure 4 - Mainstreaming Sustainability into the Value-Chain

The Primary Activities offers a fruit-bearing branch for sustainable value creation. Executive need to learn to capture, fertilize and harvest sustainability-based opportunities. Suppliers and outsources upstream are called to engage on sustainability initiatives or going out. Distributors and partners downstream are stimulated to put sustainability in their agendas.

3.6 Corporate Sustainability Governance Strategies & Goals

Corporate Sustainability Governance pressure for change comes from institutional investors, shareholders and others stakeholders else. The current flow is from outside to the internal structure. Proactive companies are inversing the course of that pressing, by top-ranking:

I. Improving Accountability & Stakeholders Synergy;

II. Creating Sustainability Risk Management systems;

III. Developing Leadership Competence for Sustainability Value Creation: Talent attraction, development, training and retention; Value-chain training;

IV. Developing Competence for Sustainability Communication and Reporting;

V. Stimulating Value-Chain's Stakeholder Integration and Commitment;

VI. Modeling Brand-ESG Integration;

VII. Improving the Sustainability Reputation Perception

3.7 Corporate Sustainability Finance Strategies & Goals

The ROGS - Return on Sustainability Governance & Strategy[10] – mainstreams the Triple Bottom Line paradigm, from the shareholder' and investor' perspectives. Breaking-down the ROGS framework is the best exercise Company's Executives will encounter during the entire process of making sustainability a permanent part of the corporate strategy.

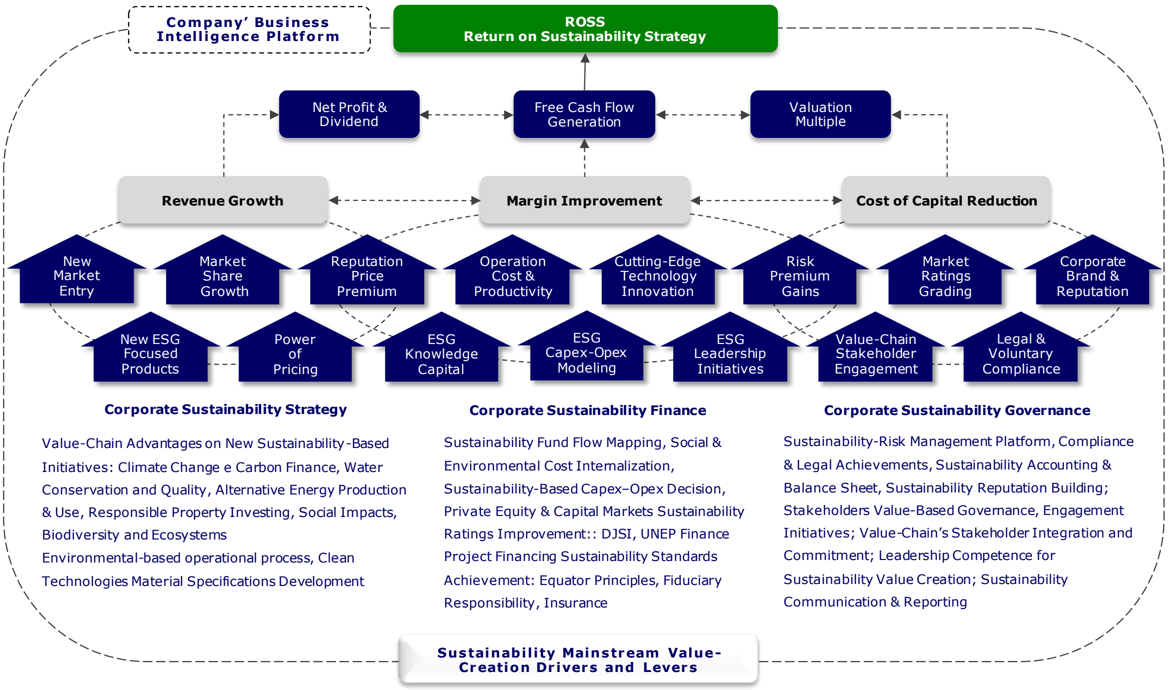

Figure 5 - ROGS – Return on Sustainability Strategy Framework

[10] The term ROSS – Return on Sustainability Strategy was originated in the Business School Lausanne Doctoral Thesis of Jose Antonio Campos Chaves "On Corporate Strategy: Role of Corporate Environmental Governance as a Driver to Create Shareholder Value, 2009.

Examining the sustainability funds-flow provides a clear understanding of sustainability finance. It may be easy to address impacting issues on the daily decision process:

I. Social & environmental cost externalization/internalization decision;
II. Capex – Opex sustainability-based decision making;
III. Outsourcing & Offshoring sustainability-based decision making;
IV. Private Equity & Capital Markets Sustainability Ratings Improvement;
V. Project Financing Sustainability Standards Achievement;
VI. Export Sustainability Reputation Building; Models for Brand-CSR Integration;
VII. Sustainability Reporting Platform

The convergence of the efforts above is propitious to company, in assuring capital markets prime access and achieve the cost of capital reduction; two of the main ways that lead the investors to understand what sustainability is.

3.8 Setting Operational, Grounding Action Plan

Setting an operative, grounding action plan to make sustainability work is the completion phase of the strategic plan. The major effort of the Company's Executives is to put the action plan functioning in the existent organizational platform, either for process and products of the action itself:

I. Objectives Detailing & Breaking-Down;
II. Implementation, Monitoring & Review Tools;
III. Stakeholder Engagement Process;
IV. The Communication Platform;
V. Sustainability Reporting

3.9 Sustainability Case Studies

During all the phases of the program many case studies will be object of discussions. Most of them come from The Dow Jones Sustainability Index sector leaders[11].

[11] www.sam-group.com/yearbook

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