The Challenge of Making Sustainability Work

A framework to develop and Implement a

Corporate Sustainability Strategy Plan

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Content

ON CORPORATE SUSTAINABILITY

What Matters on Corporate Sustainability?

Making sustainability work is the very challenge board members and senior executives are facing amid continuous NGO and public stakeholders' hard pressuring for top-ranking social and environmental issues on the corporate strategy agenda.

Two recent leading surveys on corporate senior executives' awareness and practice bring good and bad news: the good is they see corporate responsibility as the primary issues on their companies' preoccupations; the bad one is that most of respondents admit there aren't enough consensuses about what matters on corporate sustainability. This, in fact, creates ***the gap between sustainability strategy and execution***, which lead us to the main purpose of this Company's Corporate Sustainability Strategy Plan plan's development proposal.

The McKinsey & Company - Boston College's Center for Corporate Citizenship's survey[1] asked CFOs, investment professionals, institutional investors, and corporate social responsibility professionals from around the world to identify whether and how environmental, social, and governance programs create value and how much value they create. Metrics and the best indicators of value also were surveyed, and how they can be communicated most effectively as well.

According to respondents, awareness of the importance of corporate ESG programs has grown and its ability to influence corporate crises and build reputations as well. In spite of this awareness, no consensus has emerged to define if and how such programs create shareholder value, how to measure that value, or how to benchmark financial performance from company to company.

About what value - and what effect it could have, among respondents who have manifested an opinion, two-thirds of CFOs and three-quarters of investment professionals agree that ESG activities might create value for shareholders in normal business environment. But, they do not agree on how much: investment professionals are likelier to see more value than CFOs, for example. Further, a full quarter of respondents don't know what effect, if any, these activities have on shareholder value.

[1] This survey was in the field in December 2008 and includes responses from 238 CFOs, investment professionals, and finance executives from the full range of industries and regions. The survey was conducted in conjunction with Boston College's Center for Corporate Citizenship, along with a simultaneous survey of 127 corporate social responsibility professionals and socially responsible institutional investors. Source: The McKinsey Quarterly – McKinsey Global Survey Results: Valuing corporate social responsibility.

Called to put a number on the value added by environmental, social, and governance drivers, corporate social responsibility professionals appear, notably, as the most uncertain, with more than half reporting not knowing the connections these programs may have with value creation.

The Boston Consulting Group - MIT Sloan Management Review collaborative survey[2] shows that many thought leaders and survey respondents viewed sustainability as a unique business issue, both strategically and economically. But claim why decisive and effective corporate action is lacking.

The research points to three 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 business case for value creation. Third, when companies do act, their execution is often flawed.

(i) Some companies don't understand what sustainability is — and what it really means to the enterprise. The survey 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.

(ii) Difficulty on modeling the business case — or even finding a compelling case — for sustainability. Most survey respondents 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. Why do companies struggle in their efforts to develop a business case for sustainability? The survey uncovered three main challenges that trip up companies.

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.

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.

[2] This 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.

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 calculations. But sustainability drivers are anything but predictable, potentially requiring companies to adopt entirely new concepts and frameworks.

(iii) Execution is often flawed. Even if companies surmount the first two hurdles impeding action, they often stumble over the third hurdle: execution. While it is still early days in terms of judging the effectiveness of execution in sustainability, interviews and survey highlighted three main obstacles in executing sustainability initiatives.

The first is *overcoming skepticism in organizations*. Indeed, survey respondents overall cited outdated mental models and perspectives as the top internal roadblock to addressing sustainability issues. The second obstacle in execution *is figuring out how to institutionalize the sustainability agenda throughout the corporation*. 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.

The Plan's Main Goals and Objectives

The trustworthiness of the two cited up-to-date surveys' results provides the substance for the Plan's underlying goal: to help executives understand, develop and incorporate management competencies that aim to ***reduce the perceived gap between corporate sustainability strategy and its execution***.

To address the triple bottom line – from the perspective of the Company's shareholders – the Corporate Sustainability Strategy Plan's main goals are to support the company:

I. To be recognized as an accountable corporation;

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

III. To outperform shareholder's ROSS – Return on Sustainability Strategy, by creating and exploring ESG's differentiation strategies in the entire value chain;

IV. To create ESG visible, reportable and communicable value for the upstream and downstream public, government and NGO stakeholders;

V. To build internal and external ESG measurable reputation, in terms of cost of capital, exports revenue increases and brand value;

VI. To be a reference on knowledge and talent capital development and retention.

The Corporate Sustainability Strategy Plan Framework

Realizing the promise of making sustainability work calls for a comprehensive-easy to manage, reliable methodology aiming to develop, internalize and implement a Corporate Sustainability Strategy Plan.

By developing its own research and benchmarking and learning from previous works, we converged to a Company's first framework for development and implementation of its Corporate Sustainability Strategy Plan:

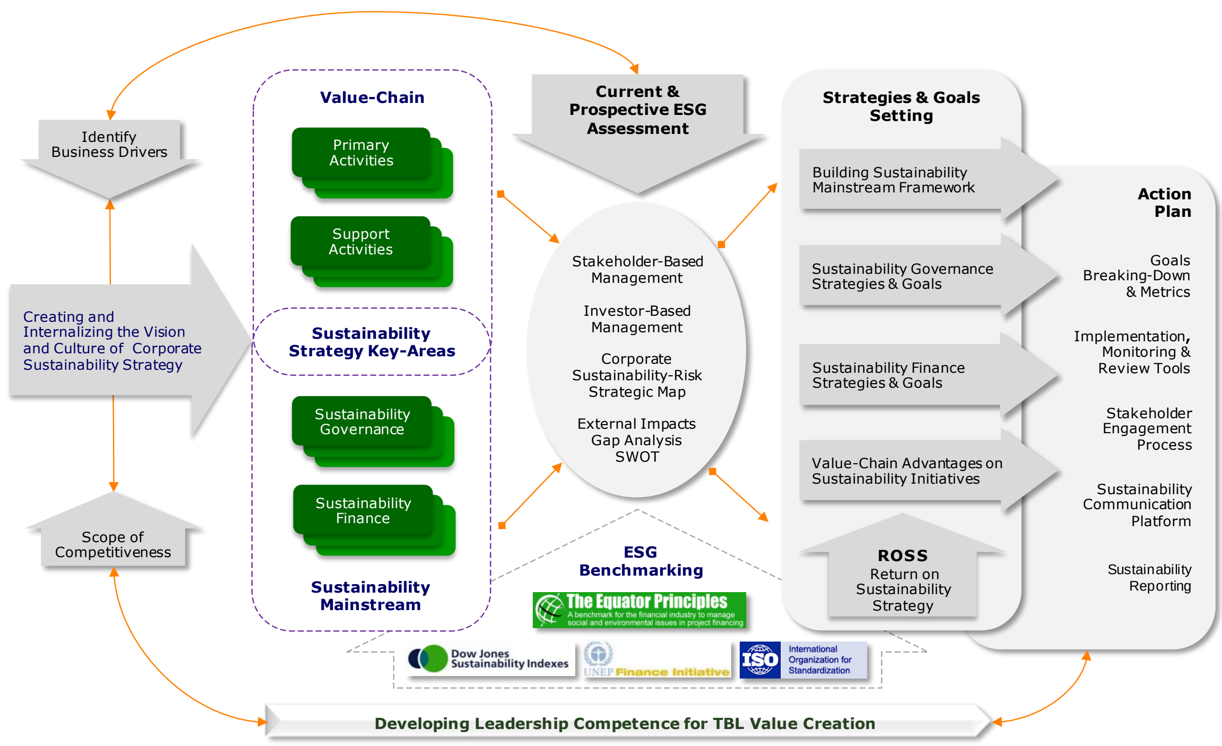


Figure1
Corporate Sustainability Strategy Plan Framework

Developing the paths for (i) creating and internalizing the vision and culture of corporate sustainability and developing leadership competence for triple bottom line value creation, (ii) mapping, understanding and defining the sustainability strategy key-areas, (iii) learning from sustainability governance and financial standards benchmarking, (iv) assessing current & prospective sustainability issues, (v) setting sustainability strategies & goals, and (vi) setting operational, grounded action plan forms the first view of the Company's process of making sustainability work.

Searching for specific demands either from company and its industry, will be the early plan's development work at the starting of the process, aiming refining the framework and facilitating work approach.

LEARNING TO MAKE SUSTAINABILITY WORK

1 Creating and Internalizing the Culture of Corporate Sustainability

Creating and internalizing the Culture of Corporate Sustainability starts the plan's 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 two survey results reinforce that assumption: "most of respondents admit there aren't enough consensuses about what matters on corporate sustainability".

Initially bellowed topics will top the agenda:

I. Understanding and Situating the Business Competitiveness Scope;
II. Identifying the Sustainability Business Drivers;
III. Sustainability as a Key-Driver for Innovation;
IV. Mapping and Advantaging on Sustainability Business Drivers;
V. Creating the Corporate Sustainability Vision;
VI. The role of the Chief Sustainability Officer;
VII. Developing Leadership Competence for Triple Bottom Line Value Creation.

The last one must be considered as an entire process' support activity as it showed throughout Figure 1.

2 Mapping, Understanding and Defining Sustainability Strategy Key-Areas

The second 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:

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.

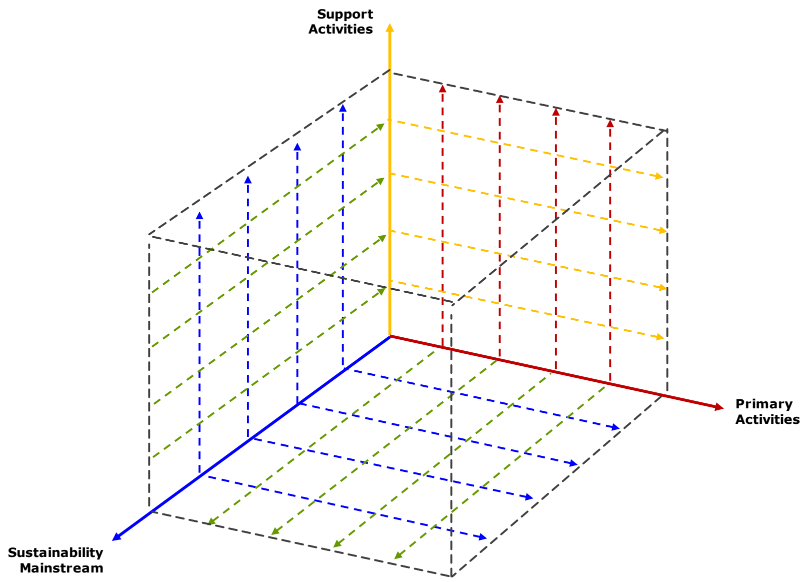


Figure 2
Corporate Sustainability Mainstream & the Value-Chain Intersection Paradigm

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 Corporate Sustainability Governance and Financial Standards Benchmarking

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 standard will certainly address to the lowering of cost of capital. Hence, 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***[3] directly addressed to capital market investors; ***The Equator Principles***[4] as an ESG standard for project financing; ***The Global Compact***[5]; the ***UNEP Finance Initiative***[6] - a Financial and Insurance industries commitments to the Environment & Sustainable Development initiatives; and ***The Principles for Responsible Investment***[7].

On June 4, 2003, the **IFC**[8] and ten world-leading banks announced a new self-regulation mechanism to guide project finance decisions called **The Equator Principles,** to create a benchmark for the financial industry on managing social and environmental issues in project financing. Since then, banks are conditioning industrial credit to a specific *triple-bottom-line* compliance framework adoption by its clients. Now, sixty-six financial institutions from twenty-eight countries have adopted the Equator Principles. These financial institutions operate in over 100 countries. As a result, the Equator Principles have become the project finance industry standard for addressing environmental and social issues in project financing globally.

The United Nations Global Compact is also a strategic policy initiative for businesses that are committed in aligning their operations and strategies with ten universally self-regulatory accepted principles in the areas of human rights, labor, environment and anti-corruption.

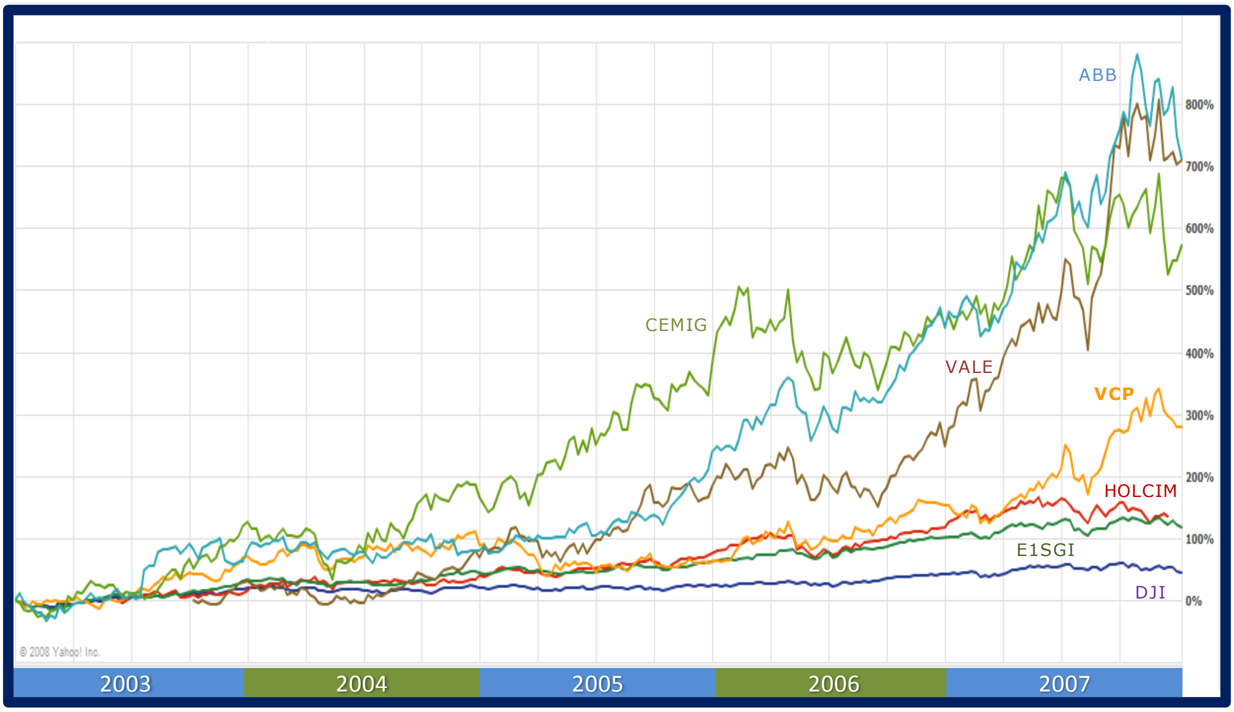
From the shareholder value creation perspective, the ***Down Jones Sustainability Group Index*** *(DJSGI)* represents a breakthrough on the Corporate Governance journey into sustainability. For the first time, performance-oriented corporate governance mechanisms for corporate sustainability's market-rating were frameworked. The *DJSGI* then established a global benchmarking on corporate sustainability. It has made possible visualizing the investors' willingness to diversify their portfolios, by investing in companies committed to the concept of

[3] Dow Jones Sustainability Group Index - *www.sustainability-index.com*
[4] www.equator-principles.com
[5] www.unglobalcompact.org
[6] http://www.unepfi.org/index.html
[7] http://www.unpri.org/
[8] IFC - International Finance Corporation, a World Bank affiliate.

corporate sustainability. It clearly evidenced the investors' choice to pay a premium for the responsible companies' stocks as well.

The United Nations Environment Programme Finance Initiative, ***UNEP Finance Initiative***, is a unique global partnership between the United Nations Environment Programme (UNEP) and the financial sector. The programme works closely with over *170 financial institutions* who are signatories to the *UNEP FI Statements*, and a range of partner organizations to develop and promote linkages between the environment, sustainability and financial performance. UNEP FI carries out its mission to identify, promote, and realize the adoption of the best environmental and sustainability practice at all levels of financial institution operations.

The signatories of the ***Principles for Responsible Investment***, institutional investors, committed to have a duty to act in the best long-term interests of its beneficiaries. In this fiduciary role, "we believe that environmental, social, and corporate governance (ESG) issues might affect the performance of investment portfolios" (to varying degrees across companies, sectors, regions, asset classes and through time). A signatory also recognises that applying these Principles may better align investors with broader objectives of society.



Graphic 1 – Outperformance Benchmarking
Dow Jones Industrial Average Index (DJI) & Dow Jones Sustainability Europe Composite Index (E1SGI)
Comparison with Sustainability Premium Companies HOLCIM, VCP, VALE, CEMIG and ABB
Source: Yahoo! Finance - http://finance.Yahoo.com

The convergence of the institutional sustainability vectors' previously mentioned is worldwide-accepted as a benchmark for the triple-bottom-line strategy, finance, governance, management and sustainability performance rating-framework. Such approach also includes modeling ESG Best Practices from Ethical Corporation, Ethos, Global Reporting Initiative and Reputation Institute.

That represents the whole methodology approach to help the Company's Executives making sustainability work and become an outperforming company in terms of shareholder value delivering.

Assuming such a vision, it is in the long-term, expected that the Company's stock will be among the well acknowledged, outperformers ones (Graphic 1).

4 Assessing Current & Prospective Sustainability Issues

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.

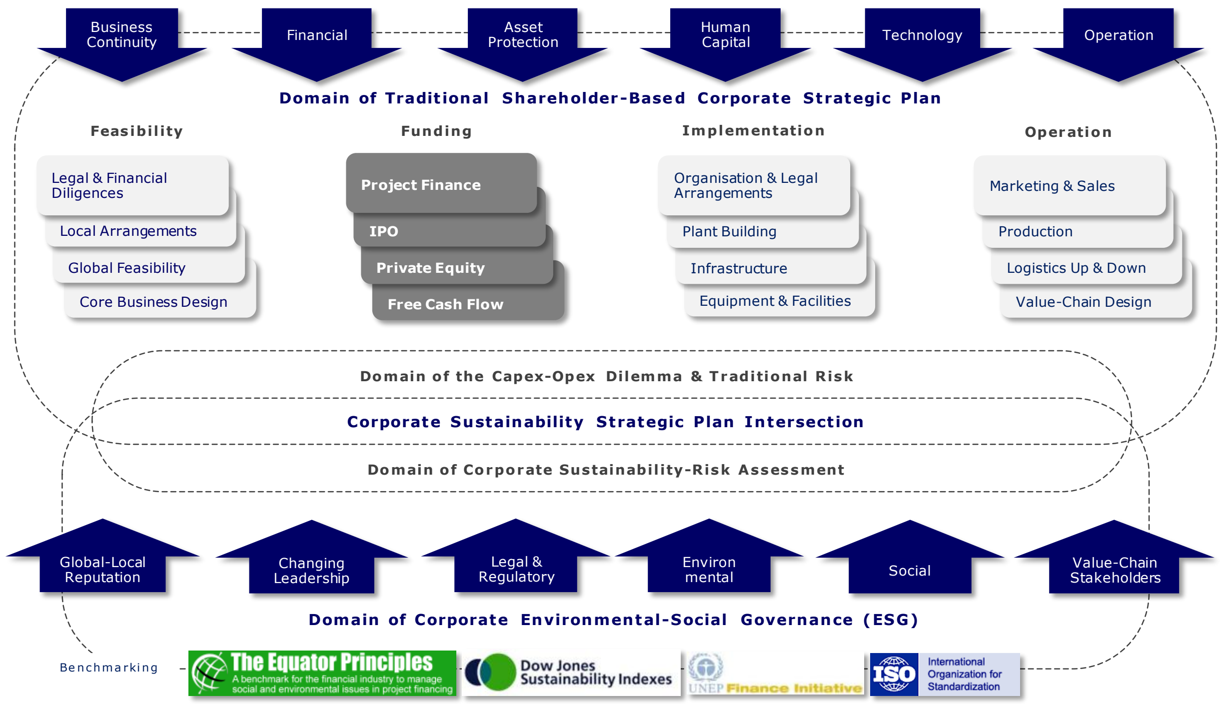


Figure 3
Corporate Sustainability-Risk Strategic Map

When developing this phase, the Company's Executives will engage in 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.

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 ROSS - Return on Sustainability 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:

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.

5.2 Value-Chain Competitive Advantages on Sustainability Initiatives

The value chain is the dwell of the value creation process. Mainstreaming the sustainability drivers over there makes visible fruitful initiatives; and brings 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 a new kind of leadership moves it.

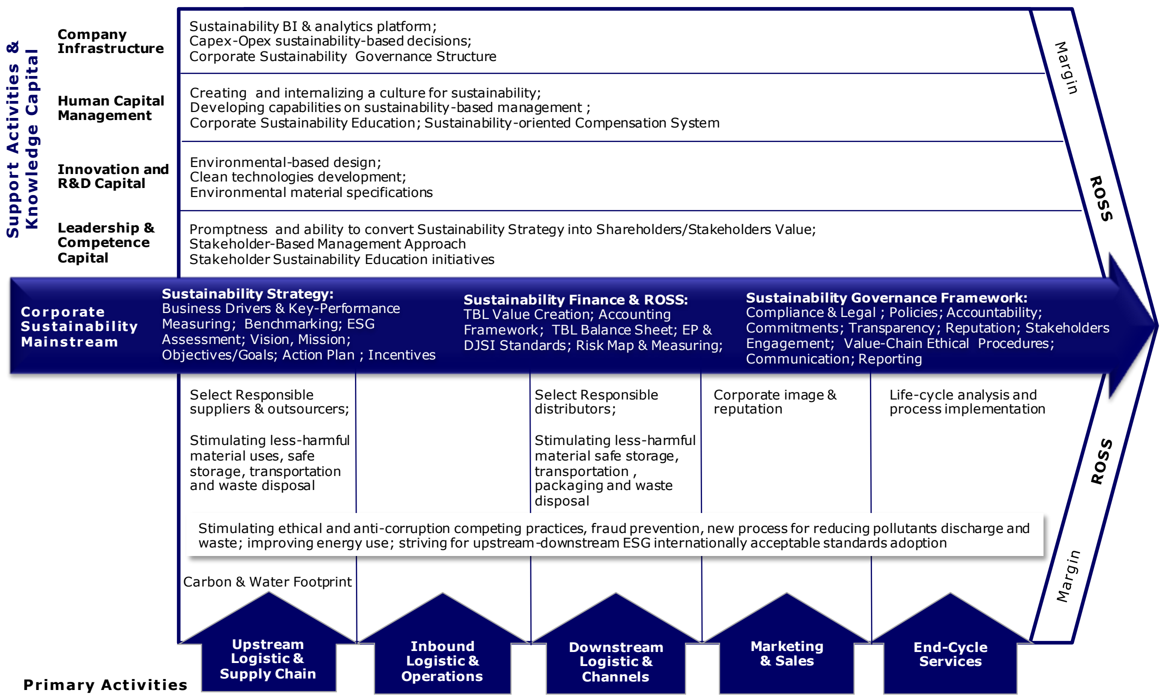


Figure 4
Mainstreaming Sustainability on the Value-Chain

The Primary Activities offers the external battle field for sustainable value creation. 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.

5.3 Corporate Sustainability Governance Strategies & Goals

Corporate Sustainability Governance pressure for changes come 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 (SBM);
vi. Modeling Brand-CSR Integration;
vii. Improving the Sustainability Reputation Perception

5.4 Corporate Sustainability Finance Strategies & Goals

The ROSS - Return on Sustainability Strategy[9] – mainstreams the Triple Bottom Line paradigm, from the shareholder' and investor' perspectives. Breaking-down the ROSS 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
ROSS – Return on Sustainability Strategy Framework

Examining the sustainability fund 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;

[9] 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.

v. Project Financing Sustainability Standards Achievement;
vi. Export Sustainability Reputation Building;
vii. Models for Brand-CSR Integration;
viii. 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.

6 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

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