Integrating strategic sustainability into business decision-making

GROUP PROJECTS - CLASS OF 2017
Introduction

The Leadership Program 2017

The WBCSD Leadership Program is a unique professional and leadership development opportunity aiming to provide current and future business leaders with an in-depth understanding of the sustainability challenges and opportunities that will feed into their strategic decision-making. As sustainable businesses will be more successful in the future, it’s therefore critical for the next generation of leaders to understand the importance of sustainability to their businesses and integrate the opportunities and risks in their core business strategy.

The year’s focus was on “Integrating strategic sustainability into business decision-making”. True integration of sustainability means that material issues are effectively addressed within business functions and seen as critical to the company’s viability. Integration enables companies to understand internally and — where relevant — communicate externally how they create value and to better manage performance on critical issues.

The 2017 program brought together 32 high-potential leaders over a nine-month period. They came together for week-long meetings in various locations: Yale University and New York (US), Berlin (Germany) and Mexico City (Mexico). Professor Rodney Irwin and Suzanne Feinmann from our Education team facilitated the three learning modules: Sustainability in context, Sustainability in action and Leading sustainability.
**Foreword**

The term *decision-making* made its way into business vocabulary in the mid-20th century when telephone executive Chester Bernard, author of *The Functions of the Executive*, imported it from the world of public administration. The expression has taken root and become a focus for business professionals.

Business students have spent many hours pondering the science and art of managerial decision-making. They have drawn on concepts ranging from mathematics and psychology, to economics, political science and philosophy in the pursuit of enlightenment about our decisions and the impact of our values.

The confirmation that businesses impact and depend on our planet’s limited and constrained resources, as well as on society as a whole, brings a new and sometimes uncomfortable need to factor the untraditional into managerial decision-making.

Our 2017 Leadership Program was designed to afford students the opportunity to examine decision-making in the context of environmental, social and governance outcomes and to research contemporary decision-making issues.

Prof. Dr. Rodney Irwin

The participants came from our member companies:

<table>
<thead>
<tr>
<th>Company</th>
<th>Company</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accenture</td>
<td>Aditya Birla Group</td>
<td>Arcadis</td>
</tr>
<tr>
<td>BT</td>
<td>CLP</td>
<td>Deloitte</td>
</tr>
<tr>
<td>DuPont</td>
<td>EY</td>
<td>Grupo Argos</td>
</tr>
<tr>
<td>IFF</td>
<td>KPMG</td>
<td>Lufthansa</td>
</tr>
<tr>
<td>Monsanto</td>
<td>Nestlé</td>
<td>nrg</td>
</tr>
<tr>
<td>OVG</td>
<td>PwC</td>
<td>Solvay</td>
</tr>
<tr>
<td>Sonae</td>
<td>StatOil</td>
<td>Taihei Cement</td>
</tr>
<tr>
<td>Veolia</td>
<td>WBCSC</td>
<td>Yara</td>
</tr>
</tbody>
</table>

**Group projects 2017**

The group reports were written by the participants based on literature reviews, research and interviews. This document only provides a summary of the five reports. The full reports are available from WBCSD. Please contact Suzanne Feinmann to learn more: Feinmann@wbcsd.org.

1. **Degrees of change: Embedding climate change risks in business decision-making through enterprise risk management**

2. **A guide to dilemma resolution at the board-level**

3. **Challenges and opportunities: Applying the Natural Capital Protocol scope stage**

4. **Social Capital - A missed opportunity. A review of how companies can use the Social Capital Protocol to inform the decision to open a new site.**

5. **Creating stakeholder value through energy efficiency collaborations in cities**
Group participants
Thomas Andro, Solvay
Brendan Edgerton, WBCSD
Andrea Jimeno Franco, Grupo Argos
Myriam Hammami, Shell
Jami Patrick, ERM
Michael Nicholus, Accenture
Laura van Oorschot, Arcadis

Background
The World Economic Forum’s Global Risks Report 2017 cites extreme weather events, failure of climate change mitigation and adaptation, and water crises as three of the most likely and high-impacting risks of the year.

Despite their importance and significant impact on business, many companies fail to manage climate change risks and opportunities with the same rigor as other risks and to systematically integrate them into business decision-making processes.

Challenges
Companies face challenges in integrating climate change risks into their ERM process, such as:

- **The lack of a robust company ERM process**
  
  The absence of a centralized clearinghouse for business risk means that climate change risks may not be included in centralized discussions of significant business risks.

- **The lack of regulatory frameworks and perceived impact on business competitiveness**
  
  The scarcity of supportive regulations can hinder the cost-effective implementation of selected responses by not providing a level playing field to all companies.

- **Limited knowledge, tools and experience in accounting for how climate change may affect business**
  
  Even when ERM processes exist, a lack of institutional expertise on climate change has an inverse relationship to the likelihood of climate change risk integration into the formal ERM process. Inadequate tools add uncertainty and increase the likelihood of management making poor decisions.

Proposition
To identify if, and how, climate change risks influence business decision-making, our team first conducted a review of existing literature, such as recent reports by the Task Force on Climate-related Financial Disclosures (TCFD) and WBCSD, and enterprise risk management (ERM) frameworks like COSO. Based on this research, we then developed our approach and interviewed senior sustainability and risk leaders at six WBCSD member companies (from different sectors) to identify specific challenges, good practices and develop key findings and recommendations.

Good practices

Identified good practices include:

- **The implementation of business continuity management systems**
  Business continuity management systems on the individual asset level often drive the assessment and management of climate change aspects.

- **The use of an internal carbon price for project evaluation**
  To foster the transition of a company to a low-carbon economy, decisions related to new asset investments may factor in an internal carbon price.

- **Embedding climate change risk management in the company strategy**
  Including aspirations for addressing climate change risks in the company strategy sets the long-term focus for the organization.

- **Strong cooperation across business functions**
  Cooperation between business functions, such as risk management, internal audit and sustainability teams, improves the efficiency of consistently addressing risks.

Key learnings

Our analysis highlights that the integration of climate change-related risks and opportunities into business decision-making varies by company. We have found a clear relationship between the inclusion of climate-related risks and the level of regulation the business is subjected to. In general, companies operating in industries that are highly regulated and have a higher impact on climate change (e.g., oil and gas, chemicals) tend to have more robust risk management processes and are more likely to embed climate change risks and opportunities in their ERM processes. Further, while regulation may have been an initial catalyst for change, it is important that all businesses internalize climate impacts. The diagram below summarizes our findings.

Climate change risks in ERM and business decision-making
Recommendations

Based on our research, to effectively incorporate climate change risk into a company’s ERM and decision-making process, a company should:

• **Critically evaluate the resilience of its business model**
  By switching from “risk impact versus risk likelihood” assessments to “business model vulnerability versus risk impact”, a company can regularly assess the resilience of its business model.

• **Make sure climate change risks and opportunities are assigned sponsors**
  A risk sponsor, ideally at board level, may be appointed to ensure that climate change is adequately addressed by the company and that ERM is used to drive business decision-making.

• **Assess climate change impacts across the whole business (continuity risk)**
  Even if climate change does not directly impact a company’s assets, it could disrupt a market and threaten business continuity. Assessing climate change from a business continuity perspective makes the need to address the topic more urgent.

• **Prioritize climate change risks and opportunities at the board level**
  Defining priority at the management level (ideally at the board level), in combination with a board-level risk sponsor, increases the likelihood that a company addresses climate change risks and opportunities consistent with its strategy and overall ERM processes.

• **Support the development of risk management practice expertise across the business**
  Rather than ask the risk area to change, companies can promote the development of credible and reliable data sources that are consistent with the demands of the risk professional in order to overcome uncertainty and knowledge and tool challenges.
Background

While discharging their duties, boards of directors encounter dilemmas when strategic decisions involve a major perceived or real trade-off between a company’s financial performance and a sustainability issue, between two sustainability issues, or between conflicting views from shareholders and stakeholders. Acknowledging that the effective resolution of such dilemmas will help preserve or create value in the long term, some company boards take a proactive and transparent approach to dealing with dilemmas in their decision-making. Other companies may downplay such dilemmas and focus solely on short-term shareholder benefits, which may lead to media attention and sometimes ultimately to shareholder activism.

How can boards deal effectively with dilemmas? Which considerations should they take into account and which factors can facilitate the effective resolution of dilemmas? Using the dilemma of climate disclosure in the oil and gas sector as a proxy for dilemma resolution management more generally, our project sought to identify the key differences between those companies that are “proactive” or “silent” on climate disclosures. This comparison and our research yielded factors that lead boards to decide to apply a more effective and transparent approach to disclosing climate-related information, and therefore to focusing on long-term value creation.

The AIDA Dilemma Resolution Framework

A relevant dilemma for many businesses relates to the public disclosure of climate-related information, and in particular where there is a potential conflict between board, shareholder and stakeholder expectations of what should be publicly disclosed about climate change-related risks and their potential impacts on a company in the long term. This dilemma has been particularly pronounced for oil and gas companies that face fundamental questions about their transition to a low-carbon economy. This is possibly why there have been several cases of boards, shareholders and stakeholders having divergent views and demands regarding which information the company should disclose.

We used the Task Force on Climate-related Financial Disclosures Recommendations to identify “proactive” and “silent” disclosure among six representative oil and gas companies. We applied the AIDA Dilemma Resolution Framework (attention, interest, decision, action)1 to identify and compare several aspects across “proactive” and “silent” companies, focusing on critical elements for boards to address when encountering dilemmas in their decision-making. The findings were used to suggest recommendations and learnings around dilemma resolution and the ability to create value in the long term.
Companies with “silent” disclosure

• **Attention**: There is a strong focus on health, safety and environmental compliance. Sustainability doesn’t appear to be discussed at the board level.

• **Interest**: Stakeholder interests are subordinate to shareholder interests. Disclosure is limited; there are no targets or forward-looking scenarios. Companies are listed in the USA or Australia.

• **Decision**: The board is homogeneous in terms of background, experience and nationalities, primarily from the same country where the head office is located.

• **Action**: Incentives are linked to short-term financial and operational objectives.

Companies with “proactive” disclosure

• **Attention**: Sustainability is identified as one of their duties and discussed at board level; it often forms a specific part of a subcommittee.

• **Interest**: Sustainability and stakeholder interests are crucial components of purpose and mission/vision statements. There is a history of voluntary sustainability reporting, including metrics, targets and forward-looking scenarios. Companies are listed in multiple countries.

• **Decision**: The board is diverse in terms of background, experience and nationalities, enabling greater ability to incorporate the views of a broader set of stakeholders.

• **Action**: Incentives are linked to short-term financial and operational objectives and to longer term objectives.

Recommendations

• **Consider stakeholder interests, not just shareholder interests**
  Considering broader societal and environmental trends and stakeholder perspectives puts a company in a better place to identify future shareholder interests earlier on and to take advantage of future opportunities.

• **Think global**
  Understanding global market activity and the differing opinions of international shareholders and stakeholders enables better decision-making in a global environment.

• **Think long-term**
  Considering (and, where appropriate, publishing) long-term scenarios, long-term goals and linked proximal targets helps avoid situations where uncertain benefits have to be balanced against near-term known costs.

• **Focus on more than just compliance**
  A meaningful company purpose that sets an ambitious and inclusive direction will ultimately help the company succeed.

• **Encourage diversity of thought**
  A diverse board in terms of geographic, gender and cultural spread has been proven to deliver more balanced and considered decisions that can improve dilemma resolution.

• **Align interests to longer term objectives**
  Remuneration of boards and key executives linked to longer term objectives will support sustainability commitments and ultimately long-term value creation.

Key learnings

Long-term value creation depends on effective dilemma resolution. This requires bringing sustainability to the attention of the board and ensuring it forms a key component of the board’s responsibilities. Sustainability should also explicitly form part of the company’s mission/vision statement and be supported by the publication of long-term goals and targets. Finally, a diverse board will consider a broader set of opinions and stakeholder perspectives and is more likely to incorporate these perspectives when their remuneration is linked to long-term objectives as opposed to being singularly focused on short-term shareholder benefits.
Group participants
Dean Chuang, NRG
Rich Guest, British Telecom
Joe Monfort, DuPont
Uma Parasar, IFF
Serman Wong, CLP Holdings
Moeko Yano, Taiheiyo Cement

Background
Sustainability professionals must navigate a complex and evolving network of global frameworks, national regulatory schemes, voluntary civil society initiatives, and stakeholder expectations and perceptions. The Natural Capital Protocol aims to provide a framework that not only builds upon existing sustainability practices but also charts a course forward in valuing nature and in enabling companies, when appropriate, to ascribe economic value to an environmental impact (positive or negative). For business, the benefit is clear: it provides inputs for strategy and investment decision-making that include holistic assessments of their natural capital dependencies and impacts.

Proposition
Our project examined the extent to which six World Business Council for Sustainable Development (WBCSD) member companies are implementing the Natural Capital Protocol in their supply chains. It analyzed challenges associated with executing steps 1 through 4 of the Natural Capital Protocol, covering the frame and scope stages, through six dimensions:

- **Data availability:** Does the necessary data exist? If so, where and what is it?
- **Internal buy-in:** Is there internal resistance to (or momentum for) the process? Why or why not?
- **Terminology:** Is the company familiar with the concepts? Are similar frameworks, processes or methodologies already in use?
- **Stakeholder perspectives:** Who are the stakeholders and how should their perspectives be balanced?
- **Interpretation of results:** How could each company interpret outputs internally? What does that mean for the relevance of the outputs?
- **Implementation:** Who is the end user of the results and how should they be used? Where should long-term ownership of Natural Capital Protocol management reside within the organization?

The Natural Capital Protocol— and the results its application could provide— offers discernible business opportunities. However, a set of questions common to any new business approach must provide sufficient answers: why this framework, why now, to what benefit and at what cost? Our analysis concludes that it will take internal champions who can clearly articulate a value proposition for the Natural Capital Protocol and navigate internal organizational dynamics to see its successful implementation. It will also take a stakeholder environment that values the results the Natural Capital Protocol can provide and lets companies know it. The recommendations provided in the next section are based on interviews conducted at each of the six companies. They support these conclusions and can help both the companies' champions and the coalition promote the Natural Capital Protocol and the value it can provide.
Challenges

• The Natural Capital Protocol is early in its adoption curve; therefore, it is not widely understood in an already crowded sustainability framework environment. For many companies, the Natural Capital Protocol is also unfamiliar territory and there is uncertainty about the “who”, “what”, “where” and “why” of project implementation.

• Access to and the availability of credible data is a significant issue. The complexity of natural capital valuation models may also require niche expertise.

• Companies are under intense pressure to contain costs; as such, sustainability initiatives can be considered nice to have and not necessarily true value drivers.

• Companies are generally less familiar with assessing their natural capital dependencies compared to their impacts; therefore, they may miss out on identifying potential risks and opportunities.

• Most companies lack the internal skills to carry out the assessment and require external support from consultants.

Recommendations

• Develop a communication toolkit specifically designed to support internal managers attempting to educate and achieve internal buy-in from their peers. Other resources could include a layman’s resource comparing the Natural Capital Protocol to other frameworks and a CEO/Executive Guide modeled on the CEO Guide to the SDGs.

• Develop generally accepted guidance that leverages existing environmental and regulatory data repositories to support a common, integrated open source platform. Such a tool could be modeled on the Reporting Exchange.

• Look for ways to ensure companies hear from their stakeholder constituencies about the Natural Capital Protocol. For example, disclosure pressure from external stakeholders such as customers and investors could help drive adoption if investor, civil society, and customer sustainability assessment frameworks were to include (and, where points are awarded, value) questions related to Natural Capital Protocol use.

• See the communications resource recommendations above. In addition, share more examples of companies understanding their dependencies to encourage others to identify risks and opportunities related to these.

• Increase capacity internally and simplify the guidance as much as possible for it to integrate into existing company processes. Provide best practices in leveraging existing project management tools to help companies understand how a Natural Capital Protocol assessment could be carried out.

Opportunities

• The Natural Capital Protocol is a path to problem solving: Identifying areas for intervention leads to positive outcomes for business and society.

• Natural Capital Protocol assessment and quantification lend credibility: The visualization of results and using numbers to relate across disciplines helps companies prioritize and manage outcomes.

• Natural Capital Protocol findings drive innovation: Communicating results motivates all facets of the business to innovate.

• The Natural Capital Protocol supports more informed decision-making: Understanding the value implications of both impacts and dependencies can open a new information frontier for business decision-making and investment.
Group participants

Pablo Barrera Lopez, Yara
Cristina Bortes, PwC
Marina Degrazia, Monsanto
Flore Laurent, Solvay
Catarina Oliveira Fernandez, Sonae
Olivia Reynolds, Accenture

Background

Demonstrating an appreciation for and effectively managing social challenges is critical for companies looking to obtain and sustain their social license to operate. Unless companies align their corporate values with stakeholder expectations for social capital, their ability to deliver the corporate strategy may be compromised. In March 2017, the World Business Council launched the Social Capital Protocol to support companies in mainstreaming the measurement of social impacts into decision-making. As part of the 2017 WBCSD Leadership Program, our group considered how the Social Capital Protocol could be and already is being applied to embed social capital considerations into decision-making.

Proposition

Our analysis sought to bring to light issues relating to the implementation of the Social Capital Protocol and how to mobilize a community to boost the number of implementing organizations. While our research focused specifically on a company’s decision to open a new site, the learnings and recommendations are relevant to numerous business decisions. The scope of this work covered three sites:

1. Solvay: A new site built in Genthin, Germany in 2016;
2. Sonae: A new office that will be built in Maia, Portugal and inaugurated in the first half of 2019;

We also conducted a rigorous review of Monsanto’s Capital Review Process. In line with the Social Capital Protocol, the research explored the extent to which companies frame, scope, measure and value, and apply and integrate social impacts and dependencies associated with site openings to highlight the potential value social capital can bring to the decision-making process.
Key learnings

• Companies are committed to identifying and managing social issues affected by their business.
  Each of the companies demonstrated an application of many of the principles in the frame and scope stages when considering the social impacts and dependencies a new site could have on the workforce and local communities.

• Social issues are not consistently embedded into decision-making.
  Economic drivers bear the greatest influence on the decision to open a new site. Social issues are typically only considered either when two options have a similar economic impact or in the event the potential social impact from opening a site could be so severe that proceeding would contradict the company’s mission and values.

• Companies find it challenging to determine the value of social capital for a business.
  Existing qualitative and quantitative measures are useful but insufficient. A more robust monetary valuation is currently unavailable for companies to effectively compare economic, environmental and social impacts in the decision to open a new site. Organizations need support on how to do this efficiently.

• Business decision-makers require further education and engagement on the value of social capital to their business.
  Personnel involved in decision-making processes typically do not have a shared understanding of what social capital is or how its impacts and dependencies can influence the business case for a decision. When numerous departments are involved in a decision, such as opening a new site, it is often unclear who is responsible for engaging with stakeholders to identify and manage social considerations.

Recommendations

To accelerate the application of the Social Capital Protocol, we propose the following recommendations for companies and the WBCSD:

Companies

• Develop a training program that is targeted at project managers/operations staff (e.g., finance, human resources, legal, strategy) to identify, measure, manage and integrate the value affected by social capital considerations.

• Develop site- and operational-level guidance on how to measure and manage social capital (e.g., build a business case).

• Communicate and consistently implement the social responsibility strategy.

WBCSD

• Actively promote the Social Capital Protocol to build awareness and understanding.

• Collate and share best practice examples to help engage and inspire decision-makers.

• Create standardized, sector-specific, interpretations of the Social Capital Protocol—including guidance on priority social capital issues and suggestions for evaluating impact.
Creating stakeholder value through energy-efficiency collaborations in cities

Group participants
Myriam Aoun, Veolia
Laura Correa Saldarriaga, Grupo Argos
Lauren Densham, KPMG
Timothy Krysiek, Statoil
Riikka Poukka, Deloitte
Michael Scharpf, LafargeHolcim
Mayada Shaaban, OVG Real Estate

Background
Launched in 2006, the Energy Efficiency in Buildings (EEB) project envisions a world in which buildings consume zero net energy (see the EEB Action Plan). EEB aims to unlock investments by increasing market demand for energy-efficiency solutions through a comprehensive value-chain approach in local markets. From 2014 to 2016, WBCSD carried out workshops, called EEB Laboratories, in 10 cities to develop action plans to address key barriers to energy-efficiency investments. Experience derived from these EEB Labs revealed four key barriers to investment:

• Lack of capability and leadership related to business case development;
• Gaps in workforce skills and collaboration throughout the value chain;
• Lack of adequate financing models;
• Lack of consistent policy frameworks (including regulations and incentives).

Subsequently, action teams in 6 of the 10 cities implemented the identified solutions and tracked progress through EEB Platforms. These platforms now need to choose a business model to sustain their activities.

Our study addressed the following question: How can the WBCSD adapt the EEB platform to be more attractive to key stakeholders in cities, in order for platform business models to be self-sustaining going forward?

Proposition
Based on key learnings from studying EEB and non-EEB platforms, we found there is no one-size-fits-all approach to addressing the questions above. Instead, we propose a set of principles that have proven to lead to successful, sustainable city collaboration:

• Analyze the maturity of the market, including local energy trends and microeconomic factors and the key motivators for energy-efficiency investments;
• Focus activities on certain high-impact segments, based on market analysis;
• Maintain a holistic focus on sustainability, rather than just energy efficiency;
• Define a clear financial proposition to offer to stakeholders;
• Assure business leaders and government officials that the platform will create tangible progress on key goals;
• Establish and leverage solid networks with companies, authorities and other stakeholders.

A successful platform may build its business model around:

• Key activities – A high level of customization typifies the activities of the platform;
• Key resources – A project office is in place, ensuring continuity;
• Cost structure – Many successful platforms offer project funding themselves;
• Key partners – In addition to the funders, other key partners include academia and local authorities;
• Customer segments – Clearly defined target stakeholder segments are essential;
• Revenue streams – The financing of successful platforms goes hand-in-hand with a clear business case based on the values and solutions demanded by “customers”.

14
Key learnings from initiatives and platforms outside EEB

Additional learnings from sustainable city initiatives and platforms outside EEB, such as Helsinki and Amsterdam (assessed for this project), include:

- Set an **inspiring vision** that stands out – on a scale that is viable;
- Offer stakeholders a **clear value proposition**, manage **expectations** and set **concrete goals**;
- Develop a clear **budget, deadlines and mandate**;
- Ensure stakeholder **investments and monetary commitments** to the platform to create involvement and higher stakes to support success;
- Embrace **partnerships** and **co-creation**.

Recommendations

- **Short term:** EEB initiatives should revisit the findings from their initial EEB Lab, conduct a refreshed market analysis and adapt their business model accordingly (see Proposition section above for key aspects).
- **Long term:** EEB platforms should consider how they can work with more holistic sustainability collaborations to achieve enhanced outcomes. Platforms should build flexibility into their structure so they can adapt to market trends and help members tap into the significant opportunities created by the global movement towards sustainable cities.
Acknowledgments

We would like to express sincere gratitude to all the experts who provided support in developing those reports, in particularly: Mario Abela, Delphine Garin, Lois Guthrie, Lauren Rogge, Matthew Watkins and Eva Zabey.

Suzanne Feinmann, WBCSD, led the writing and publication of this document.

About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing combined revenues of more than $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

www.wbcsd.org

Follow us on Twitter and LinkedIn