The Sustainable Business Value Matrix

Introduction

We deal with a lot of countries, clients, projects and resulting a lot of complexity.

To help us navigate our venture, we manage our business and projects to a Sustainable Business Value Matrix, and in this brief we communicate what this matrix is made out of, how it works and what it covers. There are two major dimensions to this matrix, being Sustainability and Business Success.

Sustainability covers governance, general, environmental, socio-economic and stakeholder engagement dimensions.

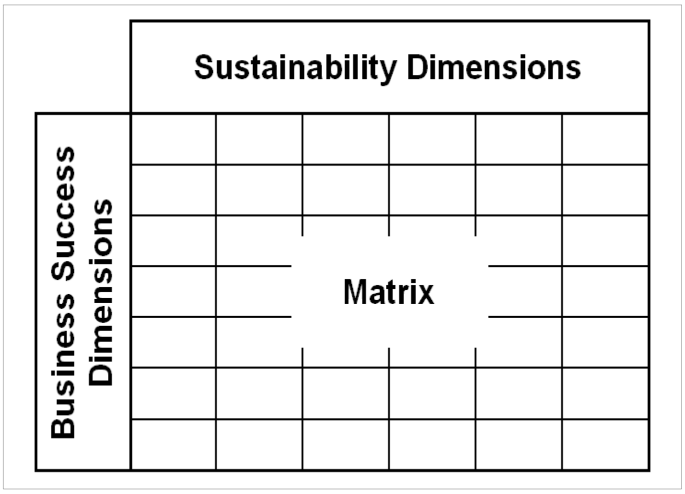
- **Governance** includes ethics, values, principles, accountability, transparency and reporting.
- The **General** dimension covers the bottom line commitment.
- **Environmental** measures are made up of a process and a product focus.
- The **Socio-Economic** dimensions are social development, human rights and workplace conditions.
- **Stake-Holder Engagement** dimensions include engaging both business and non-business partners.

Business Success covers financial performance and financial drivers.

- **Financial Performance** measures cover items such as shareholder value, revenue growth, operational efficiency and access to capital.
- **Financial Driver** measures covers items such as customer attraction, brand value and reputation, human and intellectual capital, risk profile, innovation and licence to operate

What The "Dimensions" Mean

In the following graphic we illustrate what we mean by the two major dimensions.



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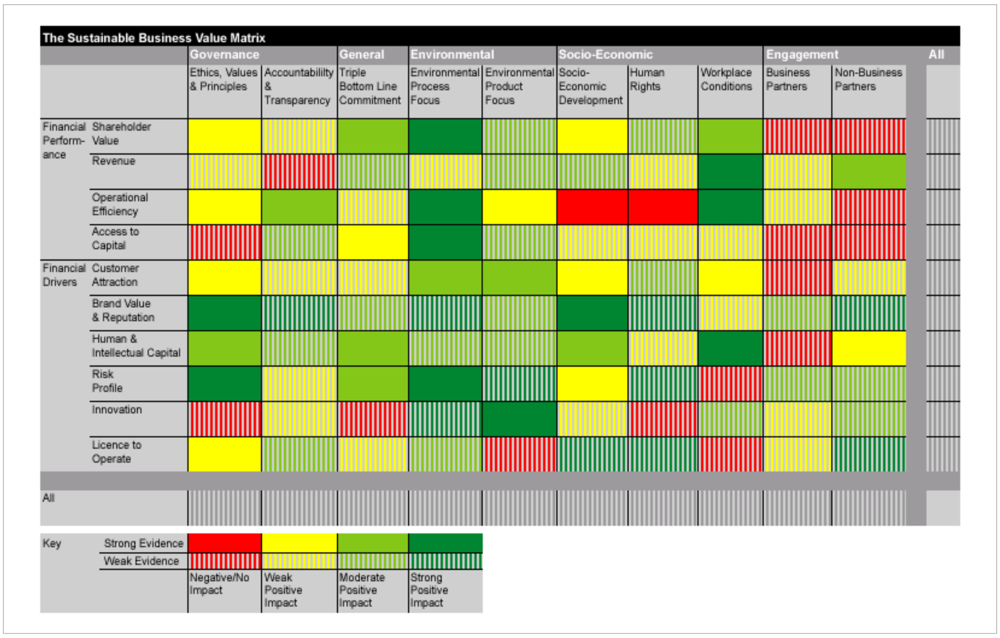
What The Matrix Looks Like

The Sustainable Business Value Matrix may sound complicated but once it's is organised it is simple to measure and understand. A sample follows in the illustration that follows.



Key To The Matrix Dimensions – Sustainability Dimensions

Governance Dimensions

1. Ethics, Values And Principles
2. Accountability, Transparency And Reporting

General Dimension

3. Triple Bottom Line Commitment

Environmental Dimensions

4. Environmental Process Focus
5. Environmental Product Focus

Socio-Economic Dimensions

6. Socio-Economic Development
7. Human Rights
8. Workplace Conditions

Stake-Holder Engagement Dimensions

9. Engaging Business Partners
10. Engaging Non-Business Partners

Key To The Matrix Dimensions – Business Success Dimensions

Financial Performance

11. Shareholder Value
12. Revenue Growth
13. Operational Efficiency
14. Access To Capital

Financial Drivers

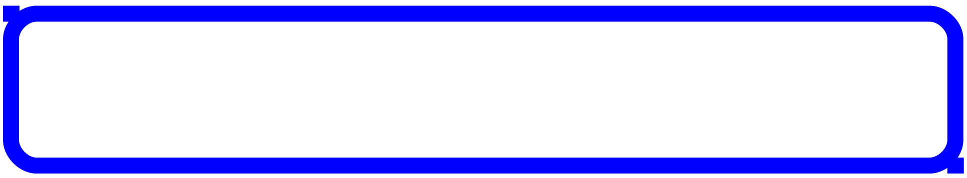
15. Customer Attraction
16. Brand Value And Reputation
17. Human And Intellectual Capital
18. Risk Profile
19. Innovation
20. Licence To Operate

Introduction to the Sustainability Dimensions

In this section we will review in greater detail what the various Sustainability Dimensions are made up of and what variables and conditions apply to them.

Before We Start – The Matrix Graphic Re-Cap

Highlighted in the graphic below (blue rounded rectangle) are the various Sustainability Dimensions.



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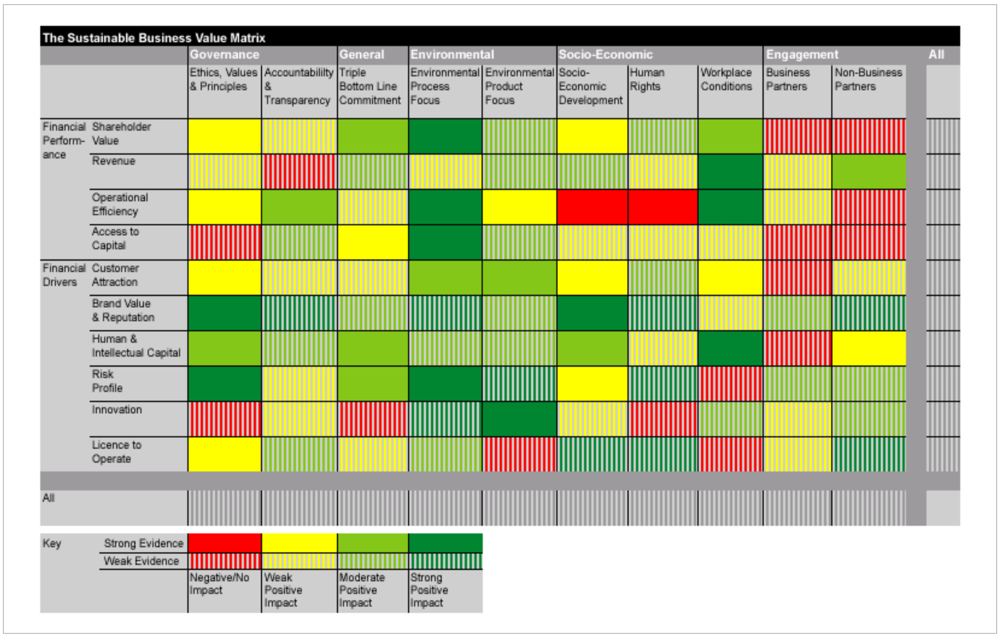

Governance Dimensions

Ethics, Values And Principles

The degree to which a company screens its actions according to a set of tangible values and principles that anticipates and provide guidance in relation to real and hypothetical issues of business ethics and corporate integrity.

In this definition, we include not only the content of a company's agreed business ethics, values, and principles, but also the extent to which these actually drive corporate behaviour.

A company's performance in this area might be judged according to:

- The scope, depth, and implementation of a firm's ethical values and business principles
- The extent to which ethics has informed decision-making processes
- Real, publicised examples of ethical decisions
- The number of complaints, court cases

Accountability, Transparency And Reporting

The degree to which a company has formalised and regularly complies with comprehensive and effective management systems that commit the company to publicly account for its progress in moving toward sustainability.

A company's performance in this area might be judged according to:

- The quality and quantity of its external reporting, both print and web-based
- The company's record in responding to ad-hoc information requests

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- The quality of the underlying systems in place to measure and disclose its environmental social and economic performance.

General Dimension

Triple Bottom Line Commitment

A company's overall commitment and performance across environmental, social and economic dimensions.

In practice, a company's general SD performance could be based on:

- Its rating or score in a published or objective CSR Index (e.g. Dow Jones Sustainability Group Index or Kinder Lydenberg Domini Index)
- A company's subjective rating based on references to its overall positioning across SD issues, without a formal rating system

Environmental Dimensions

Eco-efficiency means creating value for society and business by doing more with less over the full life cycle by:

- Reducing the material intensity of its goods and services
- Reducing the energy intensity of its goods and services
- Reducing the dispersion of any toxic materials
- Enhancing the recyclable component of its materials
- Maximising the sustainable use of renewable resources
- Extending the durability of its products
- Increasing the service intensity of its goods and services

Environmental Process Focus

This is corporate environmental responsibility as it is most conventionally thought of – essentially:

The extent to which the company minimises any adverse environmental impacts associated with its production processes, through, for example, changes to materials, equipment or practices.

A company's performance on this dimension could be based on:

- Its rating on a standard index (e.g. Innovest's Eco-value '21™)
- Its rating based on a system specially constructed for a study (e.g. Total toxic emissions)
- Its record in introducing new processes that minimise environmental impacts
- Its performance against industry benchmarks

Environmental Product Focus

The extent to which a company has embedded environmental principles throughout a product's life cycle by, for example, developing or re-designing its product and service portfolio to minimise adverse environmental impacts (e.g. Product stewardship initiatives, design for the environment).

A company's performance on this dimension is typically based on:

- Its record in introducing environmentally superior products and services
- The life cycle performance of its product and service portfolio – its environmental footprint from production to disposal

Socio-Economic Dimensions

Socio-Economic Development

The degree to which a company actively and constructively uses its resources to support the social and economic development of communities, through direct investments of cash, in-kind support or staff time or through company policies that generate community capital, such as local sourcing, hiring, partnerships and education.

In particular, this includes:

- **Community economic development and partnerships:** supporting the local development of communities by developing commercial or manufacturing activities in the area and partnering with local businesses. This includes hiring local staff (at junior and senior levels), using local suppliers and exchanging knowledge and technology. This is a two-way relationship, no different from any normal business relationship, with the exception that there is an underlying willingness to engage professionally with the local community.
- **Corporate philanthropy:** donations in cash, kind or man-hours aimed at providing a social and economic backbone for the less-developed parts of a community.

A company's performance in this area could be based on things like:

- Its policies on community investment
- The number, type, and size of its community donations
- The percentage of staff and suppliers that are based in the local community
- Community ratings of the company

Human Rights

The degree to which a company actively and constructively contributes to the protection of human rights – for its employees, its neighbours and indeed all host country residents – in the regions in which it does business (and even, potentially, in regions it decides not to do business).

A company's performance in this area could be based on things like:

- The scope and depth of its human rights policies regarding, for example, freedom of association or racial, ethnic and gender discrimination, and the company's record of implementation
- Actual operating decisions, such as whether to go to or stay in regions prone to human rights abuses, and whether and how it uses its bargaining power with host governments to promote human rights
- Number of complaints against the company for human rights abuses, or alternatively, awards for proactive human rights performance

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The issue of supply-chain management and screening is a crucial one for human rights, as it is mostly through the supply-chain and the interaction with authorities that companies get linked to human rights abuses.

Workplace Conditions

The degree to which a company proactively strives to foster a high quality work environment and work-life balance for its employees.

For clarity, this category does not include any workplace issues that fall under the basic human rights dimension described above. Rather, this dimension focuses on measures designed to improve the work environment and work-life balance for employees.

A company's performance in this area might be judged according to things like:

- The scope, depth and implementation of certain working practices (e.g. Valuing work-life balance and promoting employee empowerment and development)
- The results of employee surveys on quality of work life
- The number of complaints from employees or court cases brought by employees against the company; or alternatively, awards for positive and proactive behaviours

Stakeholder Engagement Dimensions

Engaging Business Partners

The degree to which the company includes its business partners (suppliers, joint-venture partners, contractors, shareholders and customers) in carrying out the company's sustainable development strategy.

A company's performance might be judged by:

- Whether it uses sustainability screens in its own purchasing decisions
- Whether it applies sustainability criteria to the choice of business partners and seeks to influence their behaviour (e.g. Reputation screening, supplier challenges)
- Whether or not (and how) it has played a role in promoting higher standards in the industry
- Whether it is willing to adapt its operations in response to the sustainability preferences of customers

Engaging Non-Business Partners

The quantity and quality of a company's engagement with external stakeholders (e.g. Governments, non-governmental organisations, consumer groups) to increase mutual understanding and cooperation.

A company's performance might be judged according to:

- The frequency, scope and depth of its formal stakeholder engagement exercises
- Stakeholder perceptions about the quality of engagement
- Reporting on stakeholder initiatives

Introduction to the Business Success Dimensions

In this section we will review in greater detail what the various Sustainability Dimensions are made up of and what variables and conditions apply to them.

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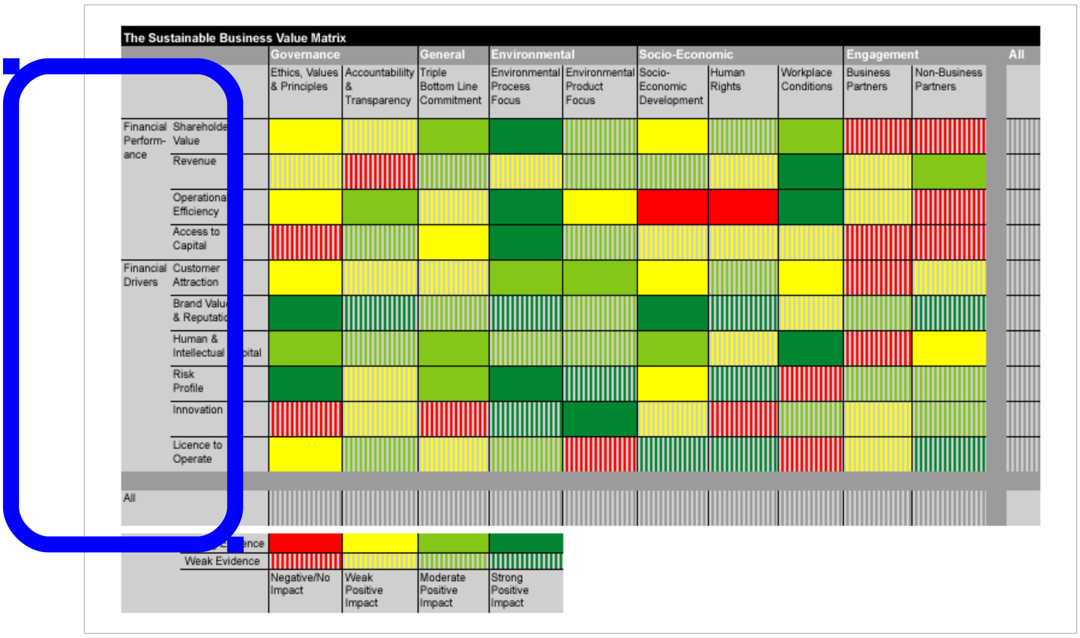
Highlighted in the graphic below (blue rounded rectangle) are the various Business Success Dimensions.



Financial Performance Dimensions

Shareholder Value

What is it?

Changes in the stock price of a corporation within a specific period.

Many believe that shareholders are the most powerful stakeholders of a firm. They own the company and can affect all decisions. Others would argue that their power is much more limited; that it is the executive management that decides the way in which a corporation is run. Yet shareholders represent something far more powerful - the dominance of the market over the corporation.

If a company performs well and is expected to continue doing so for the foreseeable future, the market demand for that stock will increase and push the price of the stock up. In effect, shareholder value is the market's assessment of the company's likely future performance.

Analysts play an important role in determining the value of a particular stock. They follow a company, assess its future performance and try to determine whether the stock will rise or fall in the future. These assessments carry a great deal of weight and analysts are therefore a

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critical target audience for business case work. A negative assessment by one of the top analysts of a particular industry can send the share price tumbling, as a positive assessment can bring it up.

Why does it matter?

Shareholder value is seen by shareholders and the financial markets as the best way to measure the performance of a company and the executives that manage it. That is why executive compensation is tied to share price in two ways: executive performance is determined by share price variations, and executives are compensated through share and option schemes that make their personal wealth directly dependent upon share price. It is therefore in the interest of executives to meet or exceed analysts' expectations, as analysts do not like unpleasant surprises.

Revenue Growth

What is it?

Changes to a company's revenue stream due to changes to pricing or market share for existing products, access to new markets, or sales of new products and services.

Why does it matter?

Revenues are the fuel of the corporate machinery. They pay for employees, capital and investments. They pay dividends to shareholders and make Research & Development possible.

In the 'new economy', the significance is larger still, as the expectation of future revenues is the sole indicator of the market value of certain companies that yet to make a profit.

Operational efficiency

What is it?

The ability of a company to turn inputs into productive outputs in a cost-effective manner.

Operational efficiency can be achieved in two ways:

- Minimising costs: capital, operational, and financing costs
- Maximising resource productivity: producing more for each unit of currency spent on employees, capital and other expenses

Why does it matter?

Operational efficiency is a key barometer of our company's current business health.

Some improvements in operational efficiency directly affect the bottom line, resulting in better financial performance. Others require up-front investments.

Access To Capital

What is it?

The company’s ability of acquiring, and terms of access to both equity and debt capital.

Two components dictate availability and cost of capital: expected rate of return and risk. The higher the risk on an investment, the higher the rate of return required by investors.

Why does it matter?

Access to capital fuels the growth of companies and their ability to invest in the future. Capital markets drive share price.

Financial Drivers Dimensions

Customer Attraction

What is it?

A company’s ability to attract and retain customers through interesting products, attractive brands, a strong reputation, customer service or particular company activities

A company’s performance might be judged by:

- Brand loyalty of its customers (as judged by insensitivity to price changes, willingness to sacrifice convenience of location to get desired brand, etc.)
- Percentage of customers in customer satisfaction surveys that are ‘very satisfied’, as they tend to be the most loyal.

Why does it matter?

The ability to attract and retain customers is clearly a driver of future revenues. The importance companies place on customer attraction is underscored by the typically vast amounts invested in marketing and advertising.

Brand Value And Reputation

What is it?

The value of the company’s corporate and product brands.

Impact measured by:

- Changes to the company’s brand book-value or to the brand value of particular product or service lines
- Ranking in lists (e.g. Most admired companies)
- Public opinion polls

Why does it matter?

As NYU Management Professor Charles Fombrun says: "reputation is much more than an abstract concept: it’s a corporate asset that is a magnet to attract customers, employees and investors."

Reputation is central to the financial markets’ assessment of companies, while the market value of a company is largely dependent on the value of its brand(s).

Reputational capital is also one of the most risk-sensitive assets of a company, which makes it both a critical and difficult asset to manage.

Human And Intellectual Capital

What is it?

The accumulated knowledge and skill set of a company’s employees.

As measured by:

- Record in attracting and retaining staff
- Internal staff satisfaction surveys
- Investment in employee training and development
- A company’s ability to innovate

Why does it matter?

Fifty years ago, the overwhelming majority of corporate assets were in machines and real estate. The balance has since shifted towards intangibles such as reputation and human capital.

Numerous studies suggest that superior talent will be tomorrow’s prime source of competitive advantage, and attracting and training committed employees will therefore become crucial to enhancing shareholder value. As McKinsey & Company says, the ‘war for talent’ has begun.

Human and intellectual capital is about more than just finding and keeping the right people. It is also about helping employees develop in ways that can maximise the corporate knowledge base. A firm’s intellectual capital is one of its most valued assets.

Risk Profile

What is it?

The degree to which a company’s tangible and intangible assets are at risk through exposure to potential ‘disasters’ or gradual erosion due to long-term decline.

Impact measured by:

- Record at avoiding, withstanding and recovering from external shocks
- Overall risk rating of investments by outside agencies

Why does it matter?

Over the last decades, companies have been made increasingly accountable for their actions, both by regulation and civil society. This has translated into an extension of corporate risk beyond pure commercial considerations towards more societal considerations.

A firm’s risk profile has direct financial relevance. The risk of a negative event dictates access to capital, affects the bottom line through legal sanctions and can destroy a firm’s reputational capital, even affecting its long-term existence.

Innovation

What is it?

A company's ability to maintain competitive advantage by regularly designing and delivering new and improved products, services and business models.

A company's performance might be judged by:

- Its record of introducing new products and services (e.g. Patents, new product launches, etc.)
- The quality of its innovations
- The flexibility of its business model

Why does it matter?

The concept of innovation has traditionally been seen as concerning the realm of products and services only. However, in recent years, and partly due to the development of the 'new economy', it has become clear that it is equally crucial to re-evaluate one's own business model (such as strategy, product portfolio, and distribution) to remain one step ahead of competitors, both existing and potential.

The ability to innovate is a key competitive advantage in many industries. As the pace of change has increased dramatically over the last 20 years, staying ahead of the game through innovation is critical, and not only in high technology industries.

Research using the Value Creation Index, a tool designed by Ernst & Young and Wharton business school researchers to determine the intangible drivers of corporate value, concluded that innovation was the most critical driver of success.

Licence To Operate

What is it?

The level of acceptance of the company by its stakeholders.

The licence to operate can be "granted" by stakeholders such as regulators, politicians, local communities, the general public, the media and civil society.

A distinction exists between the "global" and "local" licence to operate:

The global licence is largely determined by overall reputation, and the way the company is perceived by global society as a whole. The "CNN World" has given the press and ngo's new powers to influence a firm's licence to operate, and engaging these stakeholders is therefore crucial.

Local licence is demonstrated by the level of community support a firm receives (or alternatively, the lack of opposition). This support is mainly determined by the company's activities in the local community, the number of people from the community that the company employs and the extent to which the company is part of a local web of relationships.

From a regulatory perspective, a smooth relationship with regulators is crucial as they grant the "legal licence".

Why does it matter?

A licence to operate gives a company both its legal and “non-legal” legitimacy to conduct its operations. Evidence of its importance can be found in the huge sums of money that corporations spend on pr and lobbying. Having a strong licence to operate also gives firms a margin of error when negative events occur.

When firms venture into new geographical or business areas, it is particularly important to establish a licence to operate, as this will help in understanding the risks associated.

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