BM&F BOVESPA
The New Exchange

New Value – Corporate Sustainability

How to begin, who to involve, and what to prioritize

Message from the CEO

The concepts of social responsibility and sustainability are grounded in the premise that public and private organizations as well as individuals have commitments to society. This principle has been steadily solidified in the capital markets. Securities exchanges have taken the lead in encouraging companies to adopt best practices in corporate governance, supporting the creation of new markets, and building a socio-environmental agenda.

Stock exchanges traditionally act as centers of liquidity to enable companies to access sources of capital and offer investors opportunities to diversify their portfolios. Because of their involvement with a wide array of market agents, exchanges are increasingly responsible for defining the rules and best practices that reflect the aspiration of these agents and of society as a whole.

As a natural consequence of its historical commitment to sustainable development, BM&FBOVESPA invests in structured initiatives designed to ensure that sustainability is an integral part of its management, products, services and relationships. Stakeholder engagement, education and information are additional elements of its efforts in this direction. Companies are the key stakeholder group, since they form with BM&FBOVESPA a network of relationships, mutual influence, and partnership. It was for them that this guide was launched in 2011 and is now updated in a second edition, offering companies practical advice on ways of including environmental, social and governance aspects in their business strategies. The focus is evidently on sustainability in the capital markets, about which we know most.

Sustainability is increasingly highlighted in the media, round-table discussions and academia, yet people still feel unclear about what it entails. Entitled *New Value – Corporate Sustainability: How to Begin, Who to Involve, and What to Prioritize*, this guide is designed to contribute to a clearer understanding of sustainability. It does not lay down rules or offer recipes. It merely embodies BM&FBOVESPA's desire to share and disseminate knowledge, ideas and best practices that should be adopted by companies of all sizes if they wish to stand out from the crowd. After all, there can no longer be any doubt that sustainability is here to stay and that all organizations require a sustainability agenda as part of their strategic vision. Most important of all, companies should develop their own solutions, taking into account the characteristics that make them unique.

Edemir Pinto
Chief Executive Officer, BM&FBOVESPA

Preface

Institutional investors have a critical role to play when it comes to ensuring that environmental, social and governance (ESG) issues are incorporated into *mainstream* investment decision-making processes.

A good example of this was at COP21 in Paris, where we witnessed the first concrete global agreement on climate change. What set these climate talks apart was the significant role investors played throughout the summit and the importance of institutional capital as a key component in emission reduction plans.

Institutional investors have also recognized that stock exchanges can act as a lever for shaping more sustainable capital markets. One of the ways in which stock markets can effect change is by requiring greater disclosure on sustainability performance. Many exchanges around the world have set standards for sustainability disclosure as a prerequisite for companies to list on those exchanges.

The Sustainable Stock Exchanges Initiative (SSE) has done much to promote greater transparency, which will ultimately lead to a greater awareness of and emphasis on sustainable investment. The SSE Initiative brings together stock exchanges, regulators, investors and other key stakeholders to promote improved disclosure on ESG issues. The SSE is co-organized by the Principles for Responsible Investment (PRI), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Environment Programme Finance Initiative (UNEP-FI) and the United Nations Global Compact (UNGC). Over 50 exchanges are now part of the SSE Initiative.

Since joining the SSE Initiative in 2012, BM&FBOVESPA has been demonstrating its commitment to corporate disclosure on ESG considerations. By publishing this guide, BM&FBOVESPA is helping to promote business sustainability in Brazil and offers examples of best practices which can be used by other exchanges worldwide. I congratulate BM&FBOVESPA on this publication.

Our ultimate goal is to reach a time when we don't talk about "responsible" investing but focus instead on just investing in a way that provides positive returns and ensures the long-term health and viability of financial markets that work for the good of beneficiaries and society as a whole.

Fiona Reynolds
Managing Director, Principles for Responsible Investment

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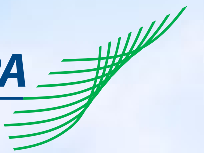


Companies and sustainable development

The road to sustainability in the business world

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

This is the most widely disseminated definition of sustainable development throughout the world. Published for the first time in 1987 by the UN World Commission on Environment & Development (WED) in Our Common Future, otherwise known as the Brundtland Report, it succinctly warned against predatory use of natural resources and against overlooking the importance of our legacy to those who come after us. It led to a new vision of development that no longer assumes natural resources are infinite and calls for the consideration of social and environmental issues as being as important as economic questions.

Day by day this vision is gaining ground in every sphere. From the business standpoint there is a consensus that companies must look beyond profit and the creation of shareholder value. These goals remain a priority, but sustainability involves another kind of profit and shareholder value, which considers these two variables in the same equation as the logic proposed by the UN's classical 1987 definition of sustainable development.

This awareness had begun to emerge earlier, in the 1970s, when the concept of corporate social responsibility (CSR) was first adopted by the business community. Initially, CSR focused on human rights and philanthropy, with more and more companies contributing to social causes but not necessarily addressing issues that directly related to their core business activities.

This was the first step toward the development of stakeholder theory, which arose years later as an approach to strategic management that says companies will succeed and be sustainable over time only if they address the needs and demands of all stakeholders, including those who are not necessarily part of the value chain, such as government, civil society organizations and local communities.

Next came the idea of environmental responsibility, as a response to advances in the legislation as well as the damage done to the environment by major accidents and pressure from multilateral agencies and NGOs. Beyond *compliance*, business organizations sought to stay ahead of increasingly restrictive laws and regulation, while also assuring cost savings via ecoefficiency and protecting their reputation as public opinion became more vigilant.

By this time the economic concept of externalities was widely understood, as was the need for companies to manage them. It was clear that while from the legal standpoint companies had a fiduciary responsibility to generate a return on capital for their shareholders, the impact of negative externalities on natural and human capital had to be adequately managed.

An Englishman called John Elkington, founder of SustainAbility and author of the seminal Cannibals with Forks, made a crucial contribution to the consolidation of this understanding in 1994 by coining the term "triple bottom line" (TBL), which requires firms to measure financial, social and environmental performance over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing businesss.

Externalities

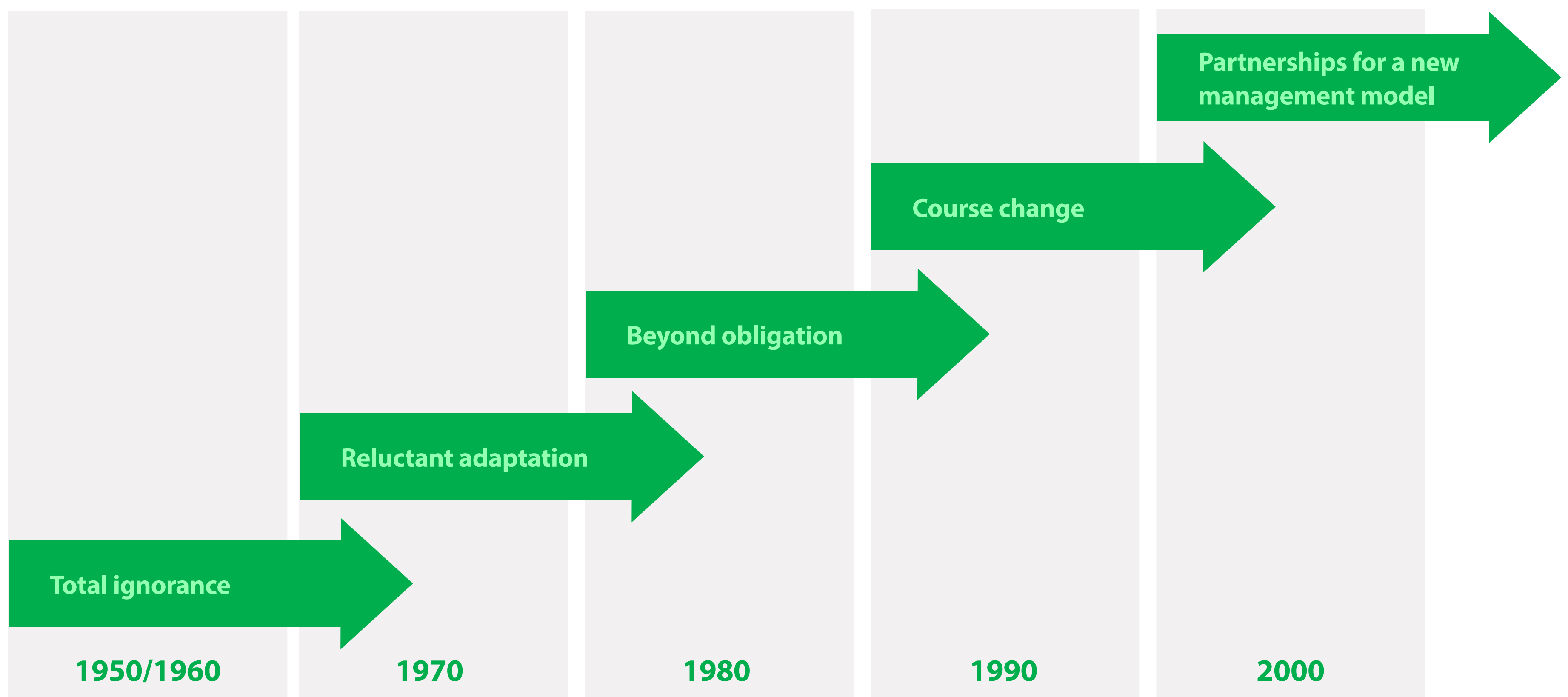
Externalities are impacts, costs or benefits arising from an economic activity that affect people other than those who make economic decisions and/or those with no control over such decisions. They may be negative (pollution of a river by a factory can cause harm to another factory that needs the same water) or positive (the hiring of private security staff by one firm can increase the level of security for its neighbors).

How business is responding to the challenge of sustainable development

In a world where the pressure on business from society's expectations is growing, natural resources are becoming scarcer and global climate change is threatening the mechanisms that support human life and economic activity, corporate sustainability is increasingly considered a competitive advantage.

Even traditional sectors are endeavoring to base strategy and management on the triple bottom line of sustainability, and new business models are emerging to provide solutions designed to balance natural capital (using clean technology) with the development of human capital via inclusive business ventures to benefit the bottom of the pyramid.

But it has not always been thus. The figure below shows how business attitudes to sustainability have changed over the years.



1950s & 1960s	**Total ignorance** Companies understand little or nothing about their social and environmental impacts. The subject remains marginal in academic and political circles.
1970s	**Reluctant adaptation** Firms oppose tougher regulation in the social and environmental sphere, arguing that it limits their growth, but seek to develop a capacity to comply with the new obligations in order to remain licensed to operate.
1980s	**Beyond obligation** The leading firms start to see benefits in doing more than the law obliges them to do. Multinationals extend their socio-environmental practices from headquarters to countries where the law is more lenient. Pollution prevention and ecoefficiency also start to generate economic benefits.
1990s	**Course change** Institutionalization of social and environmental issues, alongside technological progress, offers firms new opportunities. Sustainability indicators and voluntary certification become increasingly widespread, as do practices such as stakeholder engagement, product life cycle analysis, and ecodesign. The leading firms start to understand the *business case*.
2000 on	**Partnerships for a new management model** The concept of corporate sustainability becomes consolidated as a management approach. Many organizations now measure their impact, innovate in processes and products, engage with and assure accountability to stakeholders, and encourage their value chains to adopt a sustainability agenda.

Source: *The Reference Compendium on Business and Sustainability*, University of Cambridge Programme for Industry, 2004 (interpretation and adaptation by Fundação Brasileira para o Desenvolvimento Sustentável).

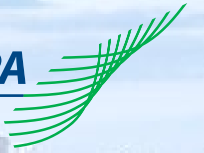
Why invest in sustainability?

Pursuing a strategy based on sustainability can add value to an organization in different ways:

1. Identification of new business opportunities
   - Innovation
2. Revenue generation
   - Adaptation of products and services to new consumer needs
   - Access to new markets
   - Building customer loyalty
3. Cost savings
   - Optimizing use of natural resources (water, energy and other inputs) in production
   - Establishing partnerships and developing suppliers
4. Productivity and intellectual capital
   - Attracting and retaining talent
   - Potentially raising workforce productivity
5. Risk mitigation
   - Reducing exposure to socio-environmental risks
   - Impact on operational, market, financial and other risks
6. Compliance with and anticipation of legal requirements
7. Enhancement of reputation and image

THINK

What is your organization's relationship to the world around it?



Sustainability and the capital markets

What is responsible investment?

Financial performance is no longer the only measure of a company's value and of a good equity investment.

Investors and analysts increasingly pay attention to the way business organizations address environmental, social and governance issues (ESG), taking information on these practices into consideration in the investment process, and in portfolio management and decision making.

> **ESG**
> Acronym for Environmental, Social and Governance issues, widely used in the investment community to refer to non-financial aspects of business administration.

This is the approach that underlies responsible investment. Also known as "integration", it was significantly boosted in 2006 by the launch of the Principles for Responsible Investment (PRI), a partnership between the United Nations and private institutional investors to *mainstream* sustainability principles in business and investment activities around the world.

In July 2016, more than 1,500 institutional investors from 61 countries, representing some US$60 trillion in assets, were signatories to the PRI. Sixty of them were Brazilian, with some R$804 million in assets under management.

Another driver of responsible investment is the growing supply of products and services with intrinsic socio-environmental features. Sustainability indices, exchange-traded funds that track such indices, and special listing segments on stock exchanges, as well as *research* firms and rating agencies that specialize in ESG, have all expanded exponentially in recent years.

Moreover, ESG data for many firms are now publicly available from the information providers used by investment analysts alongside financial data and can be accessed via company reports and providers of investment decision support and market data tools such as Bloomberg , Thomson Reuters and MSCI. The traditional *research* departments of financial institutions also produce reports that include ESG issues in their equity appraisals and recommendations.

The universal investor

The adhesion of major institutional investors to the responsible investment approach is inexorable and justified, among other factors, by their status as universal investors – institutions that because of their size have to diversify their portfolios, distributing investments across practically all economic sectors.

Alongside their concern to obtain a return on assets under management, universal investors also have a fiduciary duty to invest responsibly for the long term.

This understanding has been absorbed by the legislation and regulation governing the capital markets. Regulators in various countries now acknowledge explicitly that corporate sustainability is part of management's fiduciary obligations and hence that responsible investment is compatible with the fiduciary duties of professional investors. According to Fiduciary Duty in the 21st Century, a report published by the UN Global Compact, UNEP Finance Initiative, UNEP Inquiry and the PRI in 2015, ignoring long-term value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty.

A brief history of responsible investment

If you think the use of filters in portfolio allocation decisions is a recent trend, think again. Over a century ago churches and religious investors already used this approach by refusing to invest in sectors they saw as conflicting with their beliefs. The timeline below shows how this niche approach evolved into a globally accepted investment philosophy.

1950S-1970S

Sectors start to be excluded for investment purposes based on ethical and moral values rather than solely on religious grounds.

US and European investors stop buying shares in companies that do business with the apartheid regime in South Africa, for example.

1980S

Exclusion of sectors (negative filters) such as arms, alcoholic beverages and tobacco, evolves toward an approach favoring companies with good ESG practices, regardless of sector. The best-in-class approach also emerges, whereby filters are applied to maintain the sectoral distribution of portfolios while choosing companies with the best ESG performance in a given sector. Other important new tactics are direct engagement and shareholder activism, with investors influencing corporate strategy via a dialogue with management or by voting at AGMs to advance adoption of a sustainability agenda.

1990S

The New York Stock Exchange launches the Dow Jones Sustainability Index (1999), the first global index dedicated to mapping and tracking the financial performance of companies whose business vision includes the concept of sustainability.

In 1992 the UN Conference on Environment & Development (UNCED), also known as the Earth Summit, launches Agenda 21, an action plan with targets and guidelines for achieving sustainable development. The initiative stimulates a debate about funding to help the developing countries pursue a new clean development model.

2000S

Inspired by the US experience, more sustainability indices are launched, including the FTSE4Good from the London Stock Exchange (2001) and the SRI from the Johannesburg Stock Exchange (2004). Brazil is no exception to the trend: in 2005, BM&FBOVESPA launches its Corporate Sustainability Index, known by the local acronym ISE (website only in portuguese), to create an environment compatible with today's demand for sustainable development and stimulate best corporate practices in ESG.

2010S

Responsible Investment already accounts for more than 20% of assets under professional management in the US and Europe. There can no longer be any doubt that the *business case* for sustainability is increasingly solid and requires a response from companies. Whether from conviction or self-interest, they must all move forward with this agenda.

At end-2015 the UN Climate Change Conference (COP21) results in the Paris Agreement, signed by 195 countries and the European Union. The agreement sets out to keep global warming below 2°C and establishes that the developed countries will invest US$100 billion per year to reduce emissions and help developing countries build resilience to climate change impacts.

Sustainability adds shareholder value

Hundreds of studies conducted in the last two decades show that the responsible investment approach does not weaken average portfolio performance in comparison with traditional *benchmark*s. On the contrary, in many cases it enhances performance.

This further reinforces the hypothesis that corporate sustainability can create a competitive advantage, or at least mitigate risk and enhance reputation, thus adding shareholder value in the long run.

The role of securities exchanges

Whenever the economy stumbles, all eyes turn to the exchanges. This is no accident. Integration and growth of the capital markets have made exchanges a barometer of the global economy. They can even be seen as a synonym for the market. Together with this influence, however, come new responsibilities, requiring new positionings.

For example, in the past two decades securities exchanges in the developed and emerging-market countries have introduced incentives for listed companies to improve corporate governance. This has bolstered investor trust and contributed to significant growth in trading value, not least by attracting new issuers into the market in a virtuous circle that underscores the importance of transparency and accountability.

The next step was to incorporate social and environmental issues into the capital market, thus putting exchanges definitively on the corporate sustainability agenda. This agenda is promoted by such key institutional actors as the World Federation of Exchanges (WFE), the Sustainable Stock Exchanges initiative (SSE), the Principles for Responsible Investment (PRI), and the UN Global Compact (UNGC).

Underlying this movement is the conviction that strong exchanges are essential to the sustainability of markets. And sustainable markets are fundamental to durable, efficient exchanges.

Different initiatives

The initiatives undertaken by exchanges to foster market sustainability can be divided into two major categories:

1. Stimulating transparency and the ESG performance of listed companies. Examples:
   - Guidelines and recommendations for management and reporting
   - Engagement with and training for companies
   - Forums for networking and exchanging experiences
   - Minimum listing requirements
2. Products and services that support investor decisions. Examples:
   - Sustainability indices, broad and/or sectoral
   - Special listing segments
   - Markets for clean technology companies, carbon credits, and other environmental goods and services
   - Exchange-traded funds (ETFs) that track sustaivnability indices

At BM&FBOVESPA

For BM&FBOVESPA, sustainability is an unpostponable priority and part of its strategic agenda.

So much so that it was the first exchange in the world to become a signatory of the UN Global Compact, way back in 2004. Two years later it joined the Brazilian Global Compact Steering Committee.

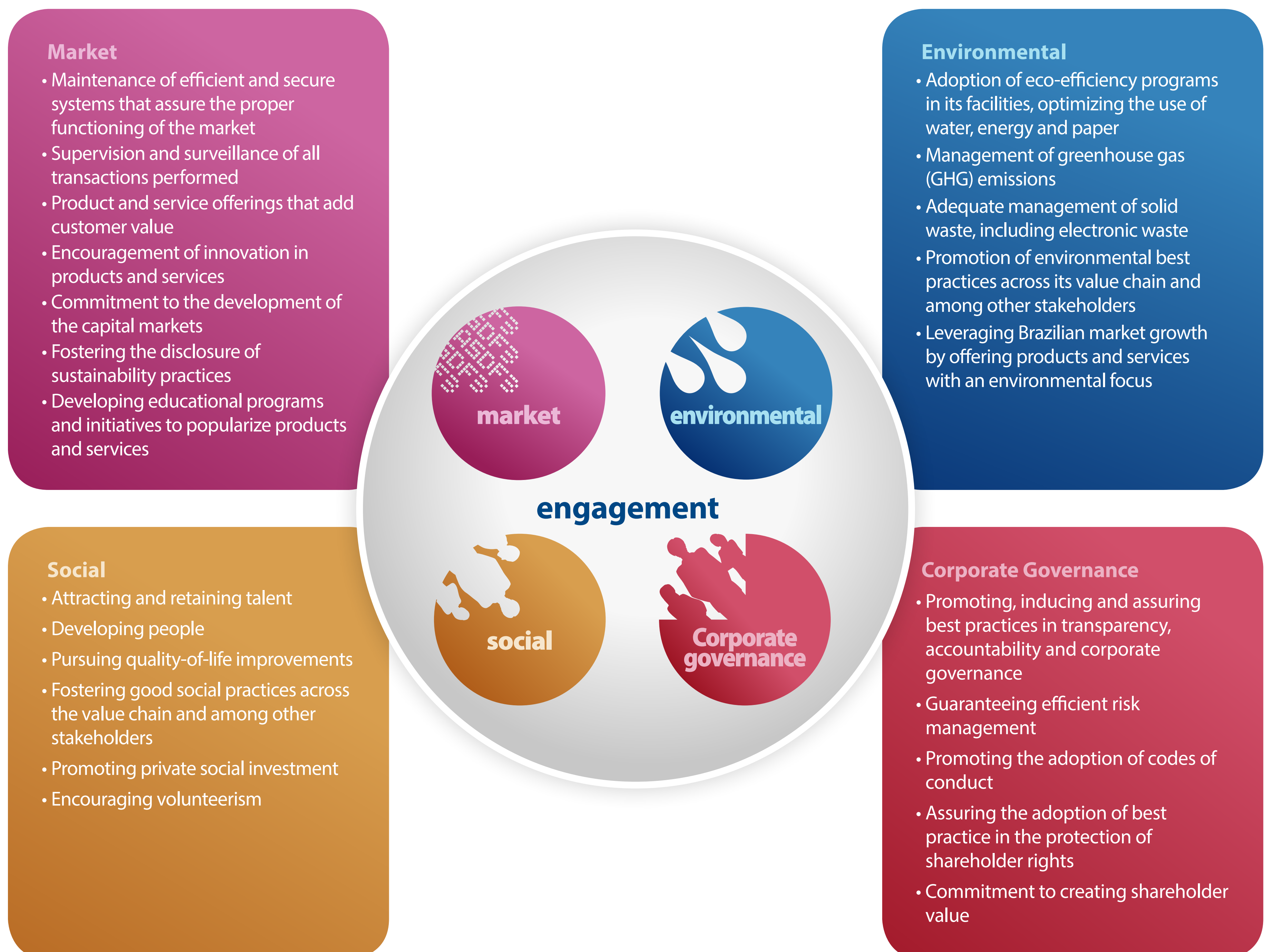
In 2010, it officially committed to the PRI, becoming the first emerging-market exchange to do so. Since then it has been a member of the PRI Brazil ESG Practices Working Group.

In the world exchange movement, BM&FBOVESPA was a founding signatory of the UN's SSE initiative in 2012, and joined the WFE's Sustainability Working Group (SWG) in 2014. A representative of BM&FBOVESPA has been elected vice-chair of the SWG for a two-year term (2016-18).

To stimulate more publication of sustainability reports, BM&FBOVESPA produces its own annual reports in accordance with the GRI methodology, and is the second exchange in the world and the first in the Americas to do so. It joined the GRI GOLD Community in 2015, having been a GRI Organizational Stakeholder from 2010 to 2015, and a member of the GRI Stakeholder Council from 2013 to 2016.

In line with these strong initiatives, BM&FBOVESPA strives to ensure that the concept of sustainability is increasingly embedded in its products and services, involving all business areas. This effort is guided by its Sustainability Policy, which the Board of Directors approved in 2013. BM&FBOVESPA's Sustainability Policy reaffirms its commitment to sustainable development and is designed to govern the internal management of BM&FBOVESPA S.A., its subsidiaries and affiliates in Brazil and abroad, as well as relations with its various stakeholder groups. Learn more.

BM&FBOVESPA's Sustainability Policy has four pillars: Market, Environmental, Social, and Corporate Governance.



Here are the main ESG initiatives introduced by BM&FBOVESPA to drive market development:

- **Corporate Sustainability Index (ISE)** – BM&FBOVESPA launched the ISE (website only in portuguese) in 2005, inspired by the belief that sustainability can create a competitive advantage for companies and add shareholder value while also helping to make the equity market more successful and resilient. To be part of the index, eligible companies (which issue the 200 stocks most traded on the Exchange) participate in a process that includes completing a questionnaire and filing documents to prove their implementation of sustainability practices.

  The methodology for the index was designed by the Sustainability Research Center (GVces) at Fundação Getúlio Vargas's Business School (FGV-EAESP). The ISE has become a global *benchmark*, widely admired as the first index of its kind in the region, with an innovative governance model and participatory development process.

  Sustainability indices generally perform better than *mainstream* stock indices in terms of both value and volatility. The ISE is no exception. It has outperformed the Bovespa Index in both respects since March 2011. This fact is a key argument to persuade investors and analysts of the ESG agenda's importance.

  In 2012, BM&FBOVESPA commissioned from GVces a review of academic *research* on the tangible and intangible benefits obtained by companies from participating in the index. This report, entitled The Value of ISE, remains current and well worth reading for its comprehensive analysis of the value added by indices that track the performance of socially responsible companies.

  Another important study that refers to the ISE is The Brazilian Financial System and the Green Economy, published in 2015 by GVces and the Brazilian Federation of Banks (FEBRABAN). According to this study, Brazil's largest pension funds reported that 5% of assets under management were allocated to specific stocks because the companies concerned were in the ISE index – this was 11 times the amount allocated to "thematic products and services".

  In 2015, to celebrate the ISE's tenth anniversary, BM&FBOVESPA launched the following tools designed to increase the visibility of the index and of the companies and investors that support it, while sharing with society the important progress achieved and the prospects for the future:

  - **Indicator platform**
    Consolidated database containing information on the ISE's ten years in terms of both economic performance and the performance of the companies in the index and the themes involved. Dynamic graphics and analysis can be generated depending on the criteria in the questionnaire, indicators and themes. Access (website only in portuguese).

  - **Wiki timeline**
    Timeline featuring the key milestones of the ISE's first ten years, with facts and curiosities of the period. The wiki format allows for contributions by the public. Access (website only in Portuguese).

  - **ISE World**
    Game-like presentation centering on the image of a sustainable planet, offering several different situations in the day-to-day lives of people and companies. The elements interact in a circular economy. By clicking on a dinosaur, for example, the user is taken to a cartoon illustrating the history of fossil fuels and related problems, with hyperlinks offering more information on the topic and bringing up the pertinent questions from the ISE questionnaire as well as information from the indicator platform database. Access (website only in portuguese).

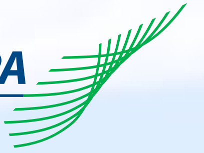
- **Novo Mercado, IGC & IGCT** – Created in December 2000, Novo Mercado is a special listing segment for issuers that commit to best practices in corporate governance beyond what the law obliges them to implement. The Special Corporate Governance Stock Index (IGC) measures the performance of stocks traded in the segment and has consistently outperformed the Bovespa Index since its inception. The Corporate Governance Trade Index (IGCT), launched in 2011, tracks IGC stocks that also meet specific liquidity requirements such as trading in at least 95% of sessions in the previous 12 months.

- **Carbon Market and ICO2** – BM&FBOVESPA believes climate change is one of the most important issues on the corporate sustainability agenda, offering companies risks and opportunities. As a listed company BM&FBOVESPA manages its own greenhouse gas emissions, disclosing an annual GHG inventory, analyzing opportunities for optimization and reduction, and offsetting emissions that cannot be reduced.
  As a driver of market development, in 2005 it launched a Project Bank for registration of the carbon credits generated under the Kyoto Protocol's Clean Development Mechanism. In 2007 it launched the Carbon Credit Auction Platform, an electronic trading environment that enables carbon credits to be auctioned on demand.
  Further highlighting the issue's importance for companies and investors, in 2010 BM&FBOVESPA partnered with BNDES, the national development bank, to launch the Carbon Efficient Index (ICO2), with a theoretical portfolio weighted by the participating companies' greenhouse gas emission coefficients. The ICO2 has outperformed the Bovespa Index since its inception. Learn more.

Report or Explain for Sustainability or Integrated Reporting

The "Report or Explain for Sustainability or Integrated Reporting" initiative, developed in partnership with GRI and to support the International Integrated Reporting Committee (IIRC), was launched in 2012 as a recommendation for listed companies to disclose ESG information. Companies that did not disclose ESG information were urged to explain why not.

The first results were announced at the Rio+20 Summit held in June 2012 in Rio de Janeiro. In this first announcement, 45.31% of listed companies disclosed ESG information or explained why it was unavailable. One year later the proportion had risen significantly, reaching 66.29%. The third update in 2014 pointed to continuing adhesion, with the proportion reaching 71.17%. In 2015 it again rose, this time to 71.65%. This was the last year of Report or Explain because in 2016 the Securities and Exchange Commission of Brazil (CVM) revised its Reference Form and inserted a specific item for companies to state whether they disclose social and environmental data, and if so specify the methodology and whether this data is audited. This development proves that measures to encourage the voluntary adoption of an ESG agenda are highly effective in the Brazilian market: after four years of work by BM&FBOVESPA with companies, CVM refined its own practices by directly asking for this information. This brought the Report or Explain cycle to a victorious conclusion. Learn more.



Strategy and management

When companies decide to make sustainability part of their business agenda, they soon realize this is a race without a finishing line. New demands arise every day, leading to a process of permanent evolution.

On the other hand, while specific issues may be more significant for certain economic sectors, generating a greater or lesser impact on business, there is a range of basic criteria that apply to all business activities.

The purpose of this section is to identify these criteria and point out the best practices for each one, so as to help companies regardless of size, sector, or the stage they are currently at in the process of incorporating sustainability.

13 steps towards sustainability

1. Engage top management
2. Involve everyone in the organization
3. Establish sustainability governance
4. Find out what needs to change
5. Set priorities
6. Define and track indicators
7. Set targets
8. Develop a sustainability policy
9. Adjust management instruments
10. Check identity
11. Make public commitments
12. Engage stakeholders
13. Report your achievements and challenges

1. Engage top management

If the sustainability agenda is to be effective and add value for a company, the decision to implement it must come from top management. Adopting sustainability as a business strategy often entails a cultural change, so it must be championed by the leaders of the organization, whose job is to explain its significance and support any adjustments required.

Ideally this should happen as a result of a strategic planning process, which starts with the board of directors. There is evidence that this movement is growing.

In a 2014 survey by US-based management consultants McKinsey & Company, 36% of the CEOs interviewed globally said sustainability was among their top three priorities – up from only 3% in 2010.

Members of boards of directors interviewed for a 2013 study (available only in Portuguese) by the Brazilian Corporate Governance Institute (IBGC) said there was a growing awareness of the need for senior management to engage more intensely with sustainability issues. The challenge, which remains daunting, is how to make this happen. It can be done through a sustainability committee to advise the board, for example. Other mechanisms are perfectly viable. There are no recipes. The best way to go will depend on the company's maturity, the stage it has reached in implementing a sustainability agenda, and the conditions prevailing in its market or sector.

THINK

Is your company's top management genuinely committed to the adoption of a sustainable agenda?

2. Involve everyone in the organization

For any corporate strategy to succeed, the entire organization must be on the same page. Everyone, staff and management alike, must understand its importance and work toward the same goals.

This logic also applies a fortiori to the implementation of a sustainability agenda.

But how can this collective awareness be achieved? By focusing on the creation of a new corporate culture that reflects the commitments made to further the sustainability agenda. Various initiatives can be undertaken as part of this process, such as the development and refinement of training programs that address socio-environmental issues, internal education or awareness campaigns, reformulation and dissemination of the code of ethics with an emphasis on sustainability, and adapting the company's hiring procedures to prioritize the selection of candidates who already have an affinity with the sustainability agenda, among others.

An effective approach that combines theory and practice is to include socio-environmental items in performance assessments, especially for executives and others in leadership positions, making sure these items affect variable compensation and career paths. In this approach each area has SMART goals (see chart below) for sustainability issues as well, and these must be in balance with economic goals so that the company is genuinely pursuing a triple bottom line.

SMART Goals
This tool contributes to the goal setting process. The example below illustrates how it could apply to the case of a steel mill:

S – Specific	Reduce absolute greenhouse gas (GHG) emissions against a baseline year
M – Measurable	Use GHG Protocol methodology to calculate emissions
A – Achievable	5% reduction
R – Relevant	GHG emissions are a material issue for the steel industry
T – Time bound	By 2018, for example

THINK

Does your company have internal communication material or training arrangements geared to sustainability?

3. Establish sustainability governance

Balancing economic, social and environmental results involves facing dilemmas and making short-, medium- and long-term decisions.

So a sustainability governance structure encompassing all levels of the organization will be needed.

How many instances should be established in order to assure effective implementation of this agenda – by enabling the development of new initiatives, the enhancement of practices and the alignment of the entire organization – will depend on the size of the company and its existing structure. However, as noted in step 1, the board of directors should have final responsibility.

Below we suggest a model for the establishment of sustainability governance in a business organization. A recommended practice is to bring in outside professionals to sit on some committees, especially when they have executive functions. These could be representatives of important stakeholder groups and/or experts in sustainability-related fields.

- **Executive Sustainability Committee** – Comprising members of the board of directors and the CEO, this body is responsible for sustainability strategy and guidelines, and for sustainability agenda decision making.
- **Sustainability Committee** – Comprising directors, this body's main remit is to carry out the strategy and guidelines set by the executive committee through support and leadership.
- **Sustainability Commission or Working Group** – Senior managers charged with assuring coordinated execution of the action plan and enabling an exchange of experiences among business areas and units.

It is also advisable to appoint a facilitator or leader to be responsible for coordinating the agenda and liaising with the various instances of the sustainability governance structure. This professional will also disseminate sustainability-related ideas throughout the organization and engage all areas in the activities required by the agenda.

Depending on the size of the organization, the facilitator or leader could be a person with expertise in the field or even a sustainability structure in the organization chart, and should have access to top management. Depending on the sector and the maturity of the company's sustainability agenda, the facilitator or sustainability structure is typically allocated to one of the following areas:

- Communication
- Finance/Risk/Investor Relations
- Corporate Affairs
- Human Resources

THINK

When an employee has a suggestion relating to sustainability, is there a person or specific area to take it to?

4. Find out what needs to change

A sustainability diagnosis is a must. It will detect any gaps in the company and serve as a basis for a short-, medium- and long-term action plan.

This process will also pinpoint the areas in which the organization requires alignment and identify structures, processes and systems that should be kept because they are already adequate to the new needs.

An assessment of the corporate documents, organizational structure and management system is a good place to start. But it's also crucial to look at more tacit areas in the organizational culture by interviewing managers in all areas, consulting with stakeholders, and participating in forums and focus groups.

In addition to reviewing documents and internal sources, it may be useful to consult market surveys and academic *research* on good practices in sustainability, including sectoral studies.

There are several consulting firms that specialize in this type of service, helping companies identify opportunities and areas for improvement. On the other hand, this is an exercise that can also be done in house, by the professional responsible for sustainability, if any, or by setting up a committee with representatives of several departments.

Another way to self-assess social, economic, environmental and governance practices is to participate in the selection process for sustainability indices such as BM&FBOVESPA's ISE and the Dow Jones Sustainability Index.

In the case of the ISE, there are three categories of participant: eligible, trial, and simulated (for listed companies only). Completing the questionnaire (available on the internet) is a useful preparation for a full-scale diagnosis, with the questions serving as a checklist for first steps.

Learn more about the ISE

5. Set priorities

The next step following diagnosis is to establish priorities. This should be done according to materiality. The concept of materiality is widely used in law and accounting, and is also increasingly applied to the definition of corporate sustainability agendas and strategies.

In accounting, an issue is said to be material when it has a significant impact on a company's financial performance and/or on its image and reputation. In other words, a sustainability issue can be considered material when it is important and a priority for stakeholders, for commercial viability, and/or for efficient administration of the company.

It will usually help to take a look at the GRI Guidelines, especially the Aspects and Indicators, as well as the Sector Supplements, where a broad range of possible material issues can be found.

TABLE 1: Categories and aspects in the GRI Guidelines

Category	**Economic**	**Environmental**
Aspects	• Economic performance • Market performance • Indirect economic impacts • Procurement practices	• Materials • Energy • Water • Biodiversity • Emissions • Effluents and waste • Products and services • Compliance • Transport • Overall • Supplier environmental assessment • Environmental grievance mechanisms

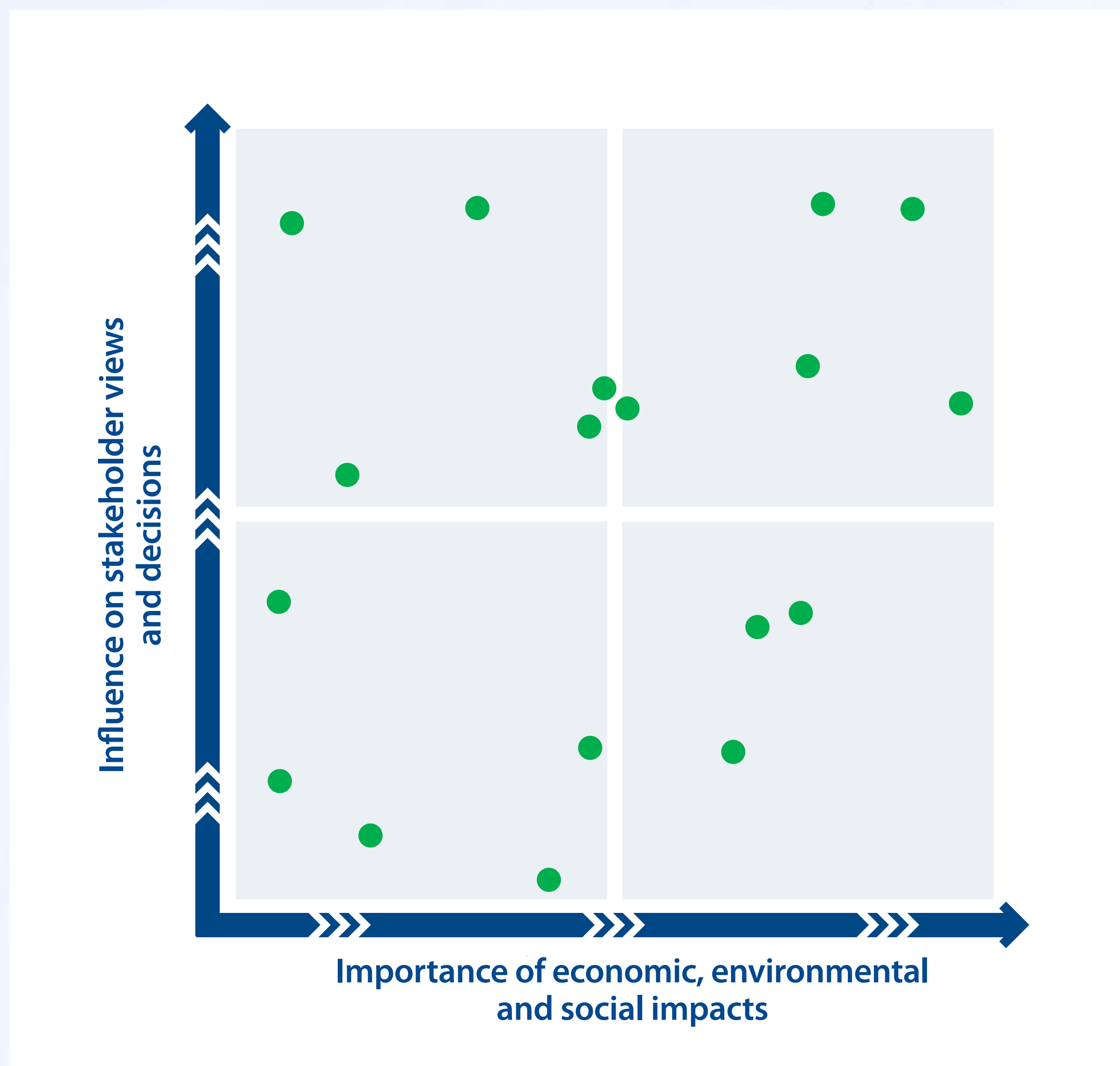
Category	**Social**			
Subcategories	**Labor practices and decent work**	**Human rights**	**Society**	**Product responsibility**
Aspects	• Employment • Labor/management relations • Occupational health and safety • Training and education • Diversity and equal opportunity • Equal remuneration for women and men • Supplier assessment for labor practices • Labor practice grievance mechanisms	• Investment • Non-discrimination • Freedom of association and collective bargaining • Child labor • Forced or compulsory labor • Security practices • Indigenous rights • Assessment • Supplier human rights assessment • Human rights grievance mechanisms	• Local communities • Anti-corruption • Public policy • Anti-competitive behavior • Compliance • Supplier assessment for impacts on society • Grievance mechanisms for impacts on society	• Customer health and safety • Product and service labeling • Marketing communications • Customer privacy • Compliance

Source: G4 – Sustainability Reporting Guidelines.

The company should prioritize and manage a limited number of material issues, depending on its moment, strategy and culture. The number may also vary according to the size of the firm, its sector, its market niche, and its maturity in terms of the work already done on the sustainability agenda.

Although studies show that any company can deal efficiently with between four and eight material issues, it's possible to create short-, medium and long-term tracks to increase the number over time. This improves the chances of succeeding along the lines of "less is more". It is important to note that material issues should be reviewed at predetermined intervals, which can be once a year or every two years, for example.

The most effective way to determine materiality is to use a matrix, such as Importance to Stakeholders versus Impact on the Organization. For the first axis, the stakeholders can be consulted directly or internal documents and reports that reflect their views can be used (e.g. reports on customer service channels, customer satisfaction surveys, accounts of interactions).



THINK

Are material issues reflected in your company's strategy?

Minimum agenda

Ecoefficiency is a key practice for companies that aspire to sustainability. It consists of the efficient use of natural resources to reduce economic cost and socio-environmental impact. Because ecoefficiency is associated with cost savings, it is relatively easy to persuade internal stakeholders to participate in its implementation. Any organization should know how much energy, water and materials it consumes per unit produced.

How to implement ecoefficiency

- Establish reliable methods to monitor indicators of energy, water and materials consumption
- Set targets for reducing consumption in the short, medium and long term
- Make adjustments to production processes in order to eliminate waste
- Replace plant and equipment with more efficient models
- Educate and train employees, contractors and suppliers
- Invest in *research* and development to create more efficient technology
- Encourage suppliers and customers to adopt this agenda

Service providers, retailers and other companies in the service sector typically do not have production processes that require large amounts of inputs. Even so, they should implement ecoefficiency practices in their administrative and commercial facilities, as well as in transportation. Wasteful use of electricity and water, paper and ink, refrigeration gas, and automotive fuel, among other items, can be eliminated.

THINK

Are your company's products and services environmentally efficient?

6. Define and track indicators

Indicators are typically suggested by the company's "sustainability facilitator" after consulting all the main departments and business units. They should be computed both for the organization as a whole and for specific operations or activities.

The indicators should be tracked not just at the operational level but also at the management level. They should be periodically reported to top management (at least once a year).

Many reference indicators are already available in the marketplace to help organizations choose what to measure and track. In preparing this guide we have compiled the most relevant ones for listed companies. The next table combines the indicators recommended in the SSE initiative's Model Guidance on Reporting ESG Information to Investors, with the WFE's ESG Guidance and Metrics, the GRI Guidelines, and the first-generation indicators recommended by Corporate Knights Capital (CKC), a Canadian investment advisory and *research* firm.

These indicators cover natural resource and waste management, labor practices, supplier relations, gender, human rights, and corporate governance, among other areas. There are different categories to help measure sustainability issues in qualitative as well as quantitative terms. It is also important to note that performance reflects how strategy should work in practice.

Environmental Indicators

Description	Unit
Environmental management and violations	• Number of environmental infraction notices and proceedings • Total fines and compensation (in Brazilian Reais) • Management of permanent conservation areas • Balance-sheet provisioning

Natural resources

Description	Unit
Energy	
Energy management	Qualitative (E.g. EMS, alternative sources, cogen, certification, risk relating to cost increases)
Electricity use	MWh per source
Energy intensity	MWh/sales
Water	
Water management	Qualitative (E.g. EMS, reuse, certification, risk of scarcity, water source conservation)
Water use	m^3
Reuse of water in production	%
Water intensity	m^3/sales
Other inputs	
Use of sensitive inputs	Qualitative (E.g. key inputs, traceability, reliance on inputs from politically high-risk countries)
Main inputs used	volume (kg or m^3)

Waste and effluent

Description	Unit
Emissions	
Emission management	Qualitative (E.g. reduction targets, adaptation plan, regulatory and physical risks)
Direct and indirect GHG emissions	Tonnes
Emission intensity	Emissions/sales
Solid waste	
Waste management	Qualitative (E.g. waste management plan, handling of hazardous waste, licenses, supplier management)
Waste generation	Tonnes
Waste intensity	t/sales
Waste recycling	%
Effluent	
Effluent management	Qualitative (E.g. effluent management, ETP, dams, leakage reduction, contingency plan)
Effluent generation	m^3 or liters
Effluent intensity	m^3/sales
Effluent treatment	%

Social Indicators	
Description	**Unit**
Human rights: policies and violations	• Corporate policies and guidelines • Involvement in cases of forced or child labor • Voluntary commitments
Labor practices	
Benefits and fair labor practices	
Employee engagement	% (employee satisfaction survey)
Professional development	Training hours per employee
Employee turnover	% per year
Pension plan coverage	% employees covered
Diversity	
Gender and ethnic diversity, non-discrimination	Qualitative
Gender diversity	%
Women's pay ratio	% men's pay
Health and safety	
Policies and certification	Qualitative (E.g. health and safety programs, accident reduction plan)
Health and safety training	Hours per employee
Accident and injury rate	Hours per employee
Lost time accidents	Hours per employee
Employee and/or contractor fatalities	Number of fatalities
Supplier relations	
Socio-environmental practices required of suppliers	Qualitative (E.g. exposure to socio-environmental risks, history of involvement in scandals, response plans)
Supplier selection with socio-environmental criteria	% total supplier contracts
Socio-environmental monitoring of suppliers	% total supplier contracts
Relations with society	
Community engagement initiatives	Qualitative (E.g. main impacts on local community, mitigation plans, channels for dialogue)
Investment in local community development projects	$$ invested/sales

Corporate Governance Indicators	
Description	**Unit**
Codes of ethics and conduct	• Application (management staff, board, suppliers etc.) • Methods of adhesion and monitoring (training, meetings etc.) • Involvement in scandals
Board of Directors	
Diversity	Qualitative
Independence	% independent members
Women	% women members
Meeting frequency	Meetings per year
Executive pay	
Total compensation – Board of Directors	$$
Total compensation – directors and officers (salaries + bonuses)	$$
Rights of minority shareholders	
Tag along for holders of common and preferred shares	%
Poison pill clause	% shareholder relevance
Corruption and conflicts of interest	
Anti-corruption codes and policies	Qualitative (E.g. governance, ethics committee)
Prevention/treatment mechanisms	Qualitative (E.g. whistleblower/complaints channels, auditing procedures, conflict of interest resolution mechanisms)
Involvement in cases of corruption and conflicts of interest	- Number of occurrences - Fines and sanctions involved

THINK

Is your company aware of the importance of defining and tracking ESG indicators?

7. Set targets

Any organization that wants to advance a sustainability agenda consistently should set clear and objective targets for as many indicators as possible, ideally publishing them and ensuring they can easily be tracked both internally and by external stakeholders. Its commitment will be made concrete in this manner.

Target setting moves agendas. In 2000 world leaders mobilized to adopt the Millennium Declaration proposed by the United Nations. The signatories undertook to build a new global partnership that would combat extreme poverty by achieving eight objectives within the next 15 years - these became known as the Millennium Development Goals (MDG).

Shortly before the deadline, heads of state and government met again in September 2015 and adopted the document Transforming Our World: the 2030 Agenda for Sustainable Development.

Agenda 2030 consists of a declaration with 17 Sustainable Development Goals (SDGs) and 169 associated targets, including sections on implementation, global partnerships, follow-up and review.

For the business sector, the SDGs represent a major challenge and an outstanding opportunity to identify new business openings.

To support business in meeting this challenge, GRI, the UN Global Compact and the World Business Council for Sustainable Development (WBCSD) issued SDG Compass: Guide for Business Action on the SDGs.

Certification

Many sustainability-related certification schemes are available today, both in Brazil and internationally. Third-party certification programs entail independent confirmation that the company's practices comply with specified requirements, enhancing the credibility of its products, processes and management systems.

Three main types of certification are most widely used by business organizations:

- **Certification of management systems and processes** – The best known are ISO 9000 (quality), ISO 14000 (environment) and ISO 26000 (social responsibility), usually attributed to a company's operating units. OHSAS 18001, is an international occupational health and safety management system specification.
- **Product certification** – Also known as "seals", these types of certification are usually displayed on product packaging or labeling. One of the best-known is Fair Trade, which identifies products that meet agreed standards for best business practices and benefit local communities.
- **Sectoral certification** – This type of certification is increasingly common in cases where public opinion is concerned about environmental and social impact, often serving as protection against non-tariff trade barriers. In Brazil the pulp, paper and packaging industry makes widespread use of Forest Stewardship Council (FSC) certification or the domestic equivalent, Cerflor (Brazilian Forest Certification Program – website only in Portuguese), while in the chemical industry Responsible Care certification testifies to safe handling throughout the product's life cycle.

THINK

How do you imagine your organization positioned in terms of sustainability in five years' time?

8. Develop a sustainability policy

Developing a sustainability policy is a key step in translating strategies and commitments into objectives and management guidelines. The policy should state the organization's aims and procedures in sustainability management, so as to facilitate the planning and execution of the relevant actions by all departments and business units, and should be approved by top management and/or the board of directors.

There are several ways to write a policy and structure the guidelines it contains:

- By subject: material issues are listed along with the respective guidelines for addressing them.
- By business unit: for organizations with separate divisions or distinct businesses, it may be useful to draw up specific guidelines for each one.
- By function or department: policy guidelines and procedures are organized by function, e.g. marketing, sales, HR, operations, finance etc.
- Hybrid: a combination of the above.

A good policy is brief, objective and disseminated to all stakeholders, internal and external, starting with the former.

9. Adjust management instruments

As the company incorporates sustainability into its business strategy and organizational culture, it needs to adapt its management instruments.

New corporate policies will therefore need to be formulated and disseminated for the relevant areas. These include a sustainability policy (which may replace and extend existing environmental, climate change and social policies), an intangible asset policy, and a risk policy (including regulatory and image risks), among others. These policies require management systems to monitor their implementation by introducing processes and procedures, and by selecting and computing appropriate indicators.

Processes and procedures are important in this stage of strategy development, because they ensure that the commitments made will be integrated into the day-to-day lives of employees, and even those of third parties if deemed necessary. They also tend to institutionalize and enforce corporate policies, strengthening the organization's culture in the sphere of sustainability and reducing compliance risk.

THINK

Do your organization's internal policies reflect its commitment to the sustainability agenda?

10. Check identity

When the organization reaches this stage, it will evidently no longer be the same as it was when the journey began. Inserting sustainability into strategy and management undoubtedly influences its objectives and stakeholder relations.

This is a suitable point at which to check whether the company's identity, its mission, vision and values, reflects its new commitments. If not, it may be time to propose adaptations.

THINK

Do the organization's mission statement, vision and values reflect its commitment to sustainability?

11. Make public commitments

A number of collective commitments, which may be general or sectoral, can also help your company formulate a sustainability strategy and develop management processes in this direction, as well as including it in a network of learning and interaction with stakeholders.

The UN Global Compact, launched in 2000, is an example. It requires signatories to commit to ten internationally accepted principles in human rights, labor relations, environmental management and corruption prevention, and has a Brazilian committee. BM&FBOVESPA was the world's first exchange to sign up to the Global Compact, in 2004. Other commitments under the aegis of the United Nations include the PRI and the Principles for Sustainable Insurance (PSI). Relevant international thematic initiatives such as CDP (Driving Sustainable Economies) address the impacts of business on climate, water and forests. There are also sectoral commitments, including the Extractive Industries Transparency Initiative (EITI) for oil, gas and mining.

These are just a few examples. The important thing is for each organization to find the sectoral or thematic commitments that are relevant to its core activities and moment.

THINK

Are there sectoral commitments relevant to your company's activities?

12. Engage stakeholders

By engaging and dialoguing with stakeholders, the company will acquire a better understanding of how its activities impact the environment and society. This is of great utility in developing ways to mitigate or offset any negative impacts so as to maintain its social license to operate.

As noted in step 3, this dialogue is an equally essential part of the process of identifying material issues, and should occur both at the level of operating units and at the corporate level. In the former case, the stakeholders are typically members of the surrounding community, suppliers and local customers, as well as other regional players. Corporate engagement will be with government, regulators, major customers and partners, representatives of employees and contractors, and civil society.

In both cases, however, the identification and prioritization of stakeholders should follow a specific methodology and take into consideration, for example, the following principles inspired by the AA1000 stakeholder engagement standard:

- Responsibility
- Influence
- Proximity
- Dependency
- Representativity

The organization already interacts with stakeholders in various ways, of course, in channels and formats such as one-on-one or group meetings, surveys, workshops, conferences, public hearings, councils or committees, collective bargaining, an ombudsman and customer care center, and so on, not to mention web-based social media. The point is to optimize the existing channels and leverage them to establish a more comprehensive structure for engaging with stakeholders, finding out what they want, and building all this information into strategy and management.

Social license to operate

This term does not refer to a formal document, but to the quality of the relationship between an organization and its stakeholders. If the relationship is not adequate, there may be conflicts that jeopardize the company's projects, objectives and results.

AA 1000

Developed by AccountAbility, a UK-based global organization, AA1000 is a series of standards designed to help organizations become more accountable and sustainable. They address priorities, performance, reporting and targets in governance, sustainability assurance, and inclusive stakeholder engagement, among others, and complement standards such as ISO 9001 e ISO 14001.

THINK

Is your organization willing to develop stronger and closer relationships with each of its various stakeholder groups?

13. Report your achievements and challenges

To win the trust of your stakeholders you must be transparent. And the best way to demonstrate transparency and accountability is by publishing reports.

In Brazil, publicly traded companies are required to publish annual management reports in major newspapers and file them with CVM, the country's securities commission. These reports focus on the company's financial performance in the previous year. On the other hand, more and more organizations now also issue sustainability reports with detailed information on non-financial performance, especially ESG, ideally linking it to economic aspects. These publications are useful tools for stakeholder engagement and broader social accountability, but they can also be used as management tools, helping the organization monitor and report indicators while also articulating sustainability strategy, governance and management in a consistent fashion.

The most widely accepted sustainability reporting model in the world today is the one developed by GRI. At present more than 1,000 companies in some 70 countries use the GRI guidelines for their sustainability reporting. The GRI Reporting Framework is also recommended by the Brazilian investors who are signatories to the PRI and the Emerging Markets Disclosure Project. Brazil has a GRI Focal Point that helps companies prepare reports.

Global Reporting Initiative (GRI)

Set up in 1997 by Ceres, a US nonprofit, and the United Nations Environment Program (UNEP), GRI is a network-based organization that has pioneered the development of a sustainability reporting framework and is committed to continuous improvement of ESG reporting guidelines for global application. GRI seeks to make the reporting of non-financial information as analytically and quantitatively rigorous as financial reporting.

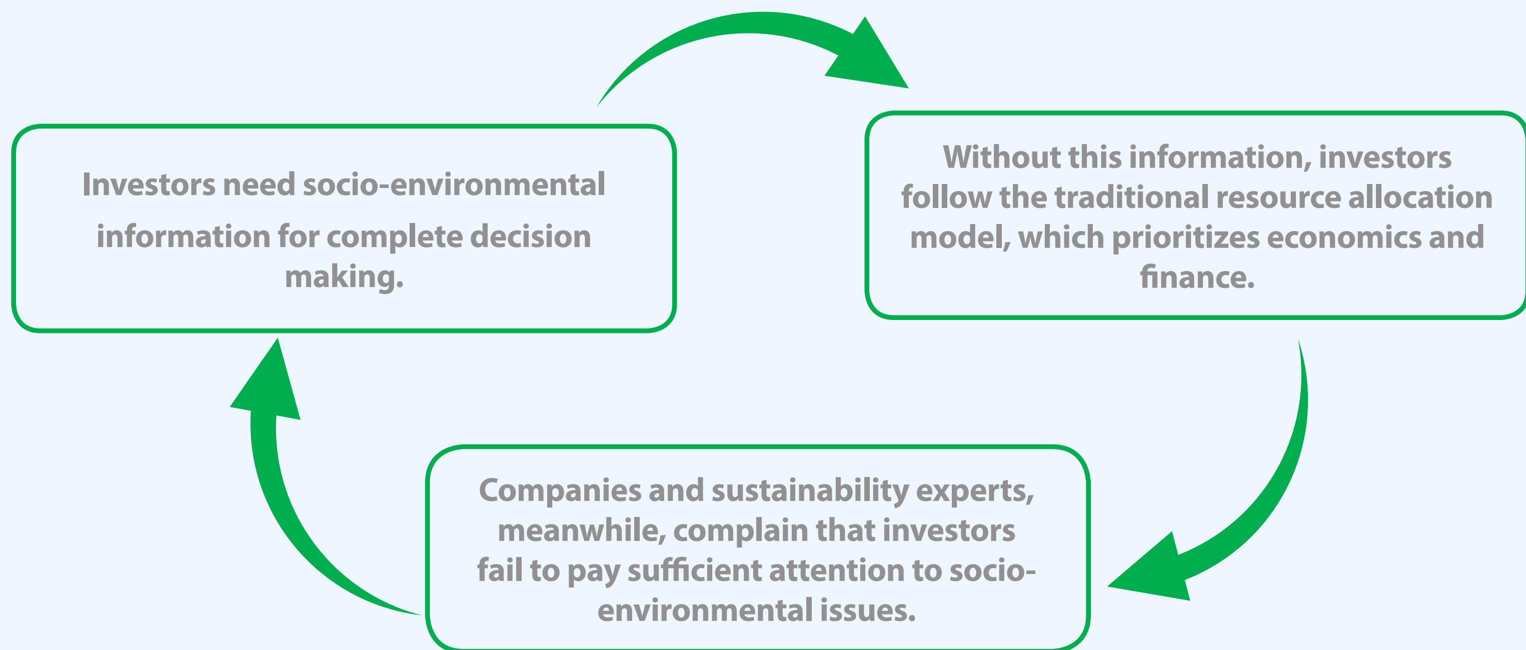
In the context of corporate disclosure, integrated reporting is an increasingly important way for business organizations to publish economic and financial results together with information on their social and environmental performance and corporate governance practices, preferably in line with an equally integrated overall strategy.

This trend is supported worldwide by the IIRC, a global coalition of regulators, investors, business, standard setters, accounting bodies and NGOs that has developed a framework to help companies with integrated reporting. In Brazil, professionals and organizations belonging to the local <IR> network, Comissão do Relato Integrado, engage with companies to discuss and foster integrated reporting.

International Integrated Reporting Committee (IIRC)

The mission of the IIRC is to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The committee comprises international leaders from governments, listing authorities, business, investors, accounting bodies, regulators and standard setters.

The publication of socio-environmental and corporate governance information via reports (be they sustainability, annual or integrated reports) is fundamental to resolve the dilemma illustrated below:



Reporting principles

To make reports credible and effective as a means of guaranteeing disclosure to stakeholders in accordance with the expected standards of transparency and accountability, as well as a tool for internal management, it is advisable to follow the internationally accepted guidelines developed by GRI. Some of the most important principles are set out below:

Balance

The report should be balanced, presenting both positive and negative facts about the company. Highlighting the challenges faced during the year is positive because it is a demonstration of transparency on the part of the organization.

Comparability

The themes and indicators presented should enable performance to be analyzed year by year and compared with market standards and with companies in the same sector. The reader should be able to understand the context for the information.

Reliability

The process of collecting information up until publication of the report should be consistent, and should permit simple checking and possibly an external verification process.

Precision

The information provided should be precise and detailed enough to enable stakeholders to make a fair assessment of the company's performance. The use of estimates should be duly noted and their premises explained.

Challenges

The main challenge of corporate reporting is the need to address certain topics and questions repeatedly raised by important groups such as investors and analysts, such as:

- **Strategy**: How extensively do ESG issues permeate the company's strategy?
- ***Business case***: How does sustainability add shareholder value? Via cost savings? Access to new markets? Asset protection? Enhanced reputation?
- **Risk management**: What are the socio-environmental risks to which the company is most exposed? How does it identify, prioritize and mitigate these risks?
- **Challenges and dilemmas**: Balancing economic, social and environmental performance presents enormous challenges. What are they? How does the company resolve dilemmas and make tough decisions?
- **Public policy and regulation**: What is the company's role in the development of public policy for sustainability? What is its policy on lobbying and what subjects does it prioritize for this activity? What regulatory issues could influence its performance?
- **Contextualization of performance**: Does the company present relative as well as absolute indicators? Is its performance, whether positive or negative, explained and justified with reference to targets? How does its performance compare to sectoral indicators or those of direct competitors?
- **Target setting**: What are the short-term and long-term targets for the main indicators?
- **Verification**: Has the accuracy of the quantitative data been independently audited? Does the report make room for the views of stakeholders with regard to its quality?

Source: "Rumo à Credibilidade" survey, 2010, FBDS, SustainAbility, UNEP.

Glossary

A

AA1000: Developed by AccountAbility, a UK-based global organization with offices in seven countries including Brazil, AA1000 is a series of standards designed to help organizations become more accountable and sustainable. They address priorities, performance, reporting and targets in governance, sustainability assurance, and inclusive stakeholder engagement, among others, and complement standards such as ISO 9001 and ISO 14001.

B

Bottom of the pyramid (BoP): Term popularized by C.K. Prahalad (1941-2010) to refer to the four billion people who live below the poverty line worldwide. Professor of Corporate Strategy at the University of Michigan, Prahalad wrote a best-selling book entitled The Fortune at the Bottom of the Pyramid (2004) which highlighted the enormous growth potential for companies who learn how to serve this market by providing the poor with what they need. Later, Professor Stuart L. Hart extended the idea and linked it to sustainability by arguing that companies can guarantee growth while helping to reduce poverty if they learn to develop products and services for the poor and include BoP in their value chains.

***Business case*:** A document, presentation or set of arguments that justifies a strategic project or investment in terms of the value it adds to the company's business, quantitatively, qualitatively or both.

C

Carbon credits: Tradable financial instruments in the form of GHG emission reduction certificates issued by companies or governments in developing countries under the Kyoto Protocol flexibilization mechanism. They are bought by companies, governments or other entities, usually in developed countries, to offset their own GHG emissions. Projects must meet the "additionality" test by demonstrating that they would not have been implemented without the economic benefits gained from selling carbon credits.

Clean technology: Cutting-edge technologies that are rapidly evolving (from IT to biotech), as well as traditional technologies that help reduce pollution and natural resource consumption (including electricity), or raise productivity while using new inputs with less environmental impact.

Climate change: Higher mean global temperatures associated with greenhouse gas emissions, mainly due to

human activities. Among the most harmful consequences of global warming are rising sea levels, greater frequency and intensity of extreme weather, and desertification.

Corporate social responsibility (CSR): A business vision according to which organizations are responsible to all stakeholders, not just shareholders and investors, for pursuing long-term goals that are good for society, especially with regard to environmental management, ethical conduct, and the welfare of employees and local communities.

Corporate sustainability: An approach to business management based on the triple bottom line model, involving transparency of purpose and positioning, and taking the needs and expectations of stakeholders into account.

Corporate Sustainability Index (ISE): BM&FBOVESPA index designed to measure the return on a portfolio composed of stocks in companies committed to social responsibility and corporate sustainability, and to promote best practice in the Brazilian business sector. Access.

E

Ecodesign: An approach to design that gives special consideration to the social and environmental impacts of a product during its entire life cycle before production begins. Associated with the concepts of cradle-to-cradle (C2C), which emphasizes design aimed at reuse in a different function or 100% recycling, and biomimetics, which applies the biological methods, processes and systems found in nature to the engineering of solutions to human problems.

Ecoefficiency: More efficient use of natural resources to reduce economic cost and environmental impact via upgrading of production processes and innovation (recycling, waste reduction). Typically focuses on consumption of items such as energy, water and materials per unit produced.

ESG: aAcronym for Environmental, Social and Governance issues, widely used by the investment community to refer to non-financial aspects of corporate management.

Externalities: Impacts, costs or benefits arising from an economic activity that affect people other than those who make economic decisions and/or those with no control over such decisions. May be negative (pollution of a river by a factory can cause harm to another factory that needs the same water) or positive (the hiring of private security staff by one firm can increase the level of security for its neighbors).

G

GHG Protocol: The most widely used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas (GHG) emissions. Developed in partnership by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). Access.

Global Compact : The United Nations Global Compact is a strategic policy initiative for businesses committed to aligning their operations and strategies with ten universally accepted principles in human rights, labor relations, environmental management, and anti-corruption. More than 5,200 organizations in 150 local networks worldwide are currently signatories. Access.

Global Reporting Initiative (GRI): Set up in 1997 by Ceres, a US nonprofit, and the United Nations Environment Program (UNEP), the GRI is a network-based organization that has pioneered the development of a sustainability reporting framework and is committed to continuous improvement of ESG reporting guidelines for global application. GRI seeks to make the reporting of non-financial information as analytically and quantitatively rigorous as financial reporting.

Greenhouse gases (GHG): Gases that absorb infrared radiation reflected by the earth from the sun's rays and trap the heat in the atmosphere. The main GHGs are carbon dioxide and methane, whose sources are both natural and anthropic (due the impact of human activities on the environment). Other exclusively anthropic GHG include nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.

I

ISO 14000: A family of environmental management standards that establish guidelines for business organizations to minimize the negative impact of their operations on the environment. ISO stands for International Organization for Standardization, a non-governmental organization based in Geneva, Switzerland.

ISO 26000: An international standard providing guidance on social responsibility for organizations of all types in the public and private sectors. Issued in November 2010 in Geneva, Switzerland, after five years of discussions and drafting work that included contributions from some 450 experts in more than 99 countries, 200 observers, and 42 regional or global liaison organizations such as the International Labor Organization (ILO), the World Health organization (WHO), Consumers International, and the Global Compact.

L

Life cycle analysis (LCA): Also known as life cycle assessment, LCA is a technique to assess the environmental impacts associated with all stages of a product's life cycle, from raw material extraction and transportation to manufacture, distribution, use, repair and maintenance, and disposal or recycling. This entails compiling an inventory of relevant energy and resource inputs, waste, and greenhouse gas emissions in each stage.

N

Natural capital: Natural resources such as water, land and minerals seen as means of production.

R

Responsible investment: An investment strategy that takes ethical and ESG issues into consideration, as well as financial performance.

S

Stakeholders: Individuals, groups and entities that have a direct or indirect stake in an organization because they can affect or be affected by its activities, including employees, customers, suppliers, communities, NGOs, regulators, lenders, investors etc.

Sustainable development: Published for the first time in 1987 by the UN World Commission on Environment & Development (WED) in Our Common Future, otherwise known as the Brundtland Report, which defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

T

Triple bottom line: A term coined in 1994 by John Elkington, founder of SustainAbility, to sum up an extension of the traditional business model, which considers only economic factors when gauging a company's performance, to a new model that measures social and environmental as well as financial performance.

Glossary terms adapted from Sustentabilidade e Geração de Valor, David Zylbersztajn & Clarissa Lins (Elsevier, 2010)

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