

PREPARED FOR:

B2W DIGITAL

EMBEDDING SUSTAINABILITY INTO STRATEGY



"Profit for a company is like oxygen for a person. If you don't have enough of it, you're out of the game. But if you think your life is about breathing, you're really missing something." – Peter Drucker

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1. INTRODUCTION

1.1 PROJECT BRIEF

This project was about developing an industry materiality assessment as a strategic business tool that will help B2W Digital identify and prioritize key initiatives that will have an impact reducing costs, by the time sustainability gets embedded into the company strategy. The implementation of the proposed methodology as well as the business tools, should be of use for any company that hasn't developed a sustainability strategy yet. The methodology should also be valuable for companies that has already started their sustainability journey but still hasn't succeed at spreading the strategy across the organization, from the bottom to the top and through all internal and external stakeholders. For the case of B2W, a case study about the application of the proposed approach to packaging is described.

One interesting finding while researching within B2W was that some functional areas were already developing sustainable initiatives, with the caveat that it was for a different purpose than sustainability, so they are not recognized as such. This insight led us to develop the case study, which is not only about packaging, it has a lot to do with awareness and communication within the organization.

1.2 COMPANY BACKGROUND

B2W Digital is the leading e-commerce company in Latin America with a portfolio consisting of the brands Americanas, Submarino, Shoptime, SouBarato, Digital Finance, Submarino Finance and B2W Services¹. It offers more than 40 categories of products and services through the internet, telesales, catalogs, TV and kiosk distribution channels. B2W aims to be *"the largest and best-loved digital company in Latin America"*. In order to pursue its vision, the Company has a management culture focused in maximizing results, provide quality services, offer a wide variety of products and have strong budgetary control and financial discipline².

B2W set up a sustainability department in 2007, looking for solutions to reduce environmental impact of their operations, (Green Company Project³). The ESG Officer role is being serviced by the COO and Director of Corporate Affairs, who reports directly to the CEO and works with a staff of 4 people directly related to sustainability.

¹ <http://www.b2wdigital.com/>

² <http://www.b2wdigital.com/en>

³ <http://www.b2wdigital.com/en/relatorio-anual-2013/page/aspectos-ambientais>

B2W published for the first time the Annual Sustainability Report⁴ for the year 2014, disclosing the economic, social and environmental performance of the Company, based on G4⁵ version of GRI⁶ standards. During the same year, B2W joined the Sustainability Index Certification⁷ (ISE) of BM&FBOVESPA,⁸ the Brazilian Stock Exchange, reflecting the company's commitment to sustainable practices.

2. PROBLEM STATEMENT

B2W executives claim that the corporation aspires to be the leading e-commerce company by embedding sustainability as an integral part of the business, and effectively communicating it to their customers. For this purpose, they set the dedicated ESG division, to drive through the process from within, with help of partner institutions, such as MIT.

As every organization starting to work on sustainability, B2W faces nowadays financial and operational challenges that prevents them to pursue faster results. Strict allocation of resources and budgetary controls, plus an exigent payback policy, are on-going pressures to consistently achieve outstanding financial and operational results.

Having said the foregoing, S-Lab team has concluded that the most effective way to help B2W is to provide them with concrete tools for to pursue aggressive sustainability goals that have positive and evident strategic benefits, are easy to measure and are visible internally and externally.

⁴ <http://www.b2wdigital.com/en/informacoes-aos-investidores/relatorios-anuais>

⁵ <https://www.globalreporting.org/standards/g4/Pages/default.aspx>

⁶ <http://www.globalreporting.org/>

⁷ http://www.bmfbovespa.com.br/en_us/products/indices/sustainability-indices/corporate-sustainability-index-ise-1.htm

⁸ http://www.bmfbovespa.com.br/en_us/

The problem statement is summarized as follows:

“B2W PRIDES ITSELF ON MAINTAINING LOW OPERATIONAL COSTS ACROSS ACTIVITY STREAMS, BUT THEY HAVE NOT YET IDENTIFIED HOW TO EXTRACT THE SAME BENEFIT THROUGH THEIR SUSTAINABILITY ACTIVITIES. IT IS IMPORTANT THAT B2W IDENTIFY THESE SAVINGS IN ORDER TO MAINTAIN THEIR REPUTATION AS WELL AS DELIVER ON THEIR PUBLIC COMMITMENT TO SUSTAINABILITY.”

It is worth mentioning that as our work evolved, and based on the discussions with the host company, we have added an additional perspective in solving the problem. In our selection of key projects, we decided to take into account sustainability initiatives that would be easily seen and appreciated by B2W’s customers.

3. ANALYTIC APPROACH

3.1 METHODOLOGY – PROJECT SCOPE

The project was divided in four stages that allowed the team to smoothly progress, as shown below. In addition, conference calls and meetings with the host, and conversations with the faculty mentor were performed periodically.



STEP #1

Research of materiality assessment tools in order to define sustainability material topics for B2W as well as to understand its current materiality assessment processes and mapping tools. This should comprise looking at assessment tools such as The Embedding Project⁹ and Global Reporting Initiative¹⁰, in addition to researching different materiality

⁹ <https://www.embeddingproject.org/>

¹⁰ <https://www.globalreporting.org/Pages/default.aspx>

propositions for the industry like the one provided by SASB,¹¹ and their paper *Corporate Sustainability: First Evidence on Materiality*¹².

STEP #2

Identify material issues based the research conducted in step 1. Use of MIT Cost/Revenue/Risk framework shown in *figure 3*, to contextualize the identified material issues into possible corporate strategies, and use it as a reference to select the most adequate key initiatives for B2W according to their strategy.

STEP #3

Identify sustainability best practices by benchmarking global firms that have successfully integrated sustainability into their broader company operations, while being able to reduce costs at the same time. In performing this task, we focused our attention on the following actions or measures:

1. Interview MIT professors, the host key stakeholders and research documentation to identify suitable benchmarking candidates.
2. Perform benchmarking exercise on identified firms using metrics that are relevant to B2W, in particular from a cost reduction perspective.
3. Identify tactical changes (e.g. project management tools and criteria) to integrate more effectively sustainability into strategy within B2W.

STEP #4

Interview key stakeholders to assess the current state of the company and gain a more comprehensive understanding of B2W's business, their concerns and interests. Understand how potential sustainability initiatives may fit into their operations and explore them in depth.

¹¹ <http://www.sasb.org/>

¹² Khan, M., Serafeim, G., and Yoon, A. - First Evidence on Materiality. HBS - http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912

3.2 MATERIALITY TOOLS

Materiality is a fundamental principle of financial reporting that recognizes that some information is relevant to investors in making decisions¹³. Materiality in sustainability assess the relative importance of specific environmental, social and governance (ESG) issues for the overall stakeholders of a company. The materiality report contains all the organization's activities, impacts and achievements related to sustainability to be communicated to shareholders¹⁴.

The use of sustainability accounting standards in disclosing material sustainability information benefits investors, companies, regulators, and the public. The negative social and environmental impacts of companies' operations represent a financial risk that is not currently accounted in a financial reporting, therefore the importance of its assessment. The comprehensiveness of the report and definition of the material issues vary from industry to industry and from company to company¹⁵.

The research of materiality assessment tools was focused on mainly three sources: Sustainability Accounting Standards Board (SASB)¹⁶, Global Reporting Initiative (GRI)¹⁷ and International Integrated Reporting (IR)¹⁸.

GRI (G4)

GRI's method considers sustainability reporting as a journey. Their approach is flexible and designed to be universally applicable to all organizations of all kinds, sectors, and geographies. G4¹⁹, their most current set of standards, includes references to other widely recognized frameworks, such as OECD Guidelines for Multinational Enterprises²⁰,

¹³ <http://www.sasb.org/materiality/important/>

¹⁴ <https://www.greenbiz.com/blog/2013/09/10/materiality-assessments-missing-link-sustainability-strategy>

¹⁵ <http://www.sasb.org/wp-content/uploads/2013/10/SASB-Conceptual-Framework-Final-Formatted-10-22-13.pdf>

¹⁶ <http://www.sasb.org/>

¹⁷ <https://www.globalreporting.org/Pages/default.aspx>

¹⁸ <http://integratedreporting.org/>

¹⁹ <https://www.globalreporting.org/standards/g4/Pages/default.aspx>

²⁰ <http://www.oecd.org/corporate/mne/>

the UN Global Compact Principles²¹, and the UN Guiding Principles on Business and Human Rights²².

GRI, differs from SASB in that it does not provide an industry specific approach, instead they propose a comprehensive set of categories as shown in *Figure 1*, leaving the decision of what is material to each company using the tool. On the other hand, GRI is more open, acknowledging that more stakeholders should be considered in the assessment, not only shareholders. The categories and aspects described in *Figure 1* proposes organizational economic, environmental and social impacts that substantively influences the decisions of stakeholders. Key stakeholders, such as investors, market regulators, civil society, suppliers, employees and customers, have a vital role to play in performing an organization’s materiality assessment.

TABLE 1: CATEGORIES AND ASPECTS IN THE GUIDELINES				
Category	Economic		Environmental	
Aspects ^{III}	<ul style="list-style-type: none"> Economic Performance Market Presence Indirect Economic Impacts Procurement Practices 		<ul style="list-style-type: none"> Materials Energy Water Biodiversity Emissions Effluents and Waste Products and Services Compliance Transport Overall Supplier Environmental Assessment Environmental Grievance Mechanisms 	
Category	Social			
Sub-Categories	Labor Practices and Decent Work	Human Rights	Society	Product Responsibility
Aspects ^{III}	<ul style="list-style-type: none"> 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 Practices Grievance Mechanisms 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Local Communities Anti-corruption Public Policy Anti-competitive Behavior Compliance Supplier Assessment for Impacts on Society Grievance Mechanisms for Impacts on Society 	<ul style="list-style-type: none"> Customer Health and Safety Product and Service Labeling Marketing Communications Customer Privacy Compliance

Figure 1: GRI/G4 categories and aspects in the Guidelines.²³

²¹ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

²² <https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality/Pages/default.aspx>

²³ <https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality/Pages/default.aspx>

IR

IR's main objective is to establish guiding principles and content, explaining the fundamental concepts that underpin them, and adopting *integrated thinking* as a way of breaking down internal silos and reducing duplication. IR does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters, once it recognizes the wide variation in individual circumstances of different organizations. It focuses on value creation, as shown in *Figure 2*, and in approaching all stakeholders related to the company (employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers)²⁴.

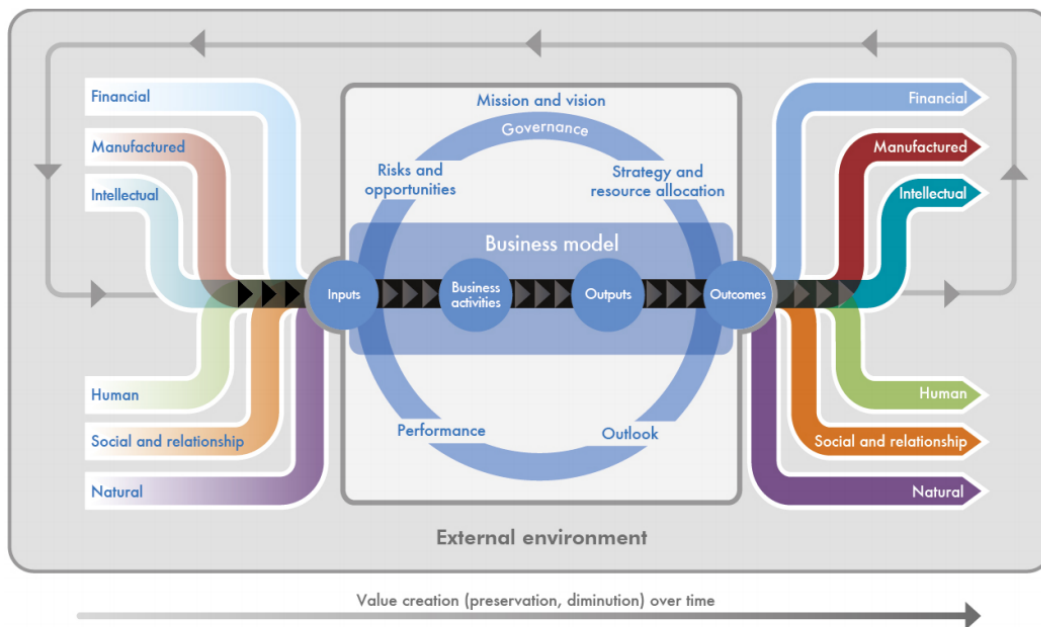


Figure 2 - IR's Value Creation Process.

SASB

SASB developed sustainability accounting standards that help publicly-listed corporations disclose material factors in compliance with SEC requirements²⁵ offering online an open methodology that focuses on materiality from capital markets standpoint for 78 industries in 5 dimensions: Environmental Capital, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance.

²⁴ <http://integratedreporting.org/resource/international-ir-framework/>

²⁵ Khan, M., Serafeim, G., and Yoon, A. - First Evidence on Materiality. HBS - http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912

According to SASB the main material sustainability issues for the e-commerce industry²⁶ are:

1. Energy management: especially concerning Data Centers' energy consumption.
2. Water and wastewater management: especially concerning the cooling system for the Data Centers, in case of water based.
3. Logistics (lifecycle impacts of products and services)
4. Product packaging
5. Data Security & Customer Privacy
6. Diversity & Inclusion
7. Recruitment, Development & Retention

3.3 COST-RISK-REVENUE FRAMEWORK

Figure 3 shows MIT's Cost-Risk-Revenue framework, inspired in the Value Driver Model of United Nations Global Compact²⁷. It defines how sustainability initiatives are able to create value to shareholders through three mechanisms: cost reduction, risk management, and revenue growth.

Within Cost Reduction the strategies for sustainable business are divided in between Resource Efficiency (e.g. leaner use of energy, use of water, and production of waste), Waste as Input (e.g. circular economy), and Labor Productivity (e.g. better wages and social dimension). Whereas in Risk Management the strategies are Legal/Regulatory (e.g. potential of carbon tax), Social/Reputational (e.g. risk of having sweat shops and boycotts), and Economic/Operational (e.g. non-sustainable supply chain). Finally,



Figure 3 - Cost-Risk-Revenue Framework (Source: Sustainability Initiative, MIT)

²⁶ <http://www.sasb.org/materiality/sasb-materiality-map/>

²⁷ <https://www.unglobalcompact.org/take-action/action/value-driver-model>

Revenue Growth approaches strategies to drive the brand: Market Access, Differentiation, and Enabling Others.²⁸

3.4 METHOD FOR DEFINING KEY INITIATIVES

After extensive reading and research, the definition of the *key sustainability initiatives* for B2W was performed based on the following methodology:

1. MATERIALITY: reading different Materiality Assessment tools: SASB, IR, GRI.
2. BENCHMARKING: other company's best practices in sustainability: within e-commerce industry (Amazon, Etsy, Alibaba, Novica, Ebay) and in other related industries (e.g. retail).
3. BRAINSTORMING: Comprehensive list of possible sustainability initiatives for e-commerce industry extracted from items 1 and 2.
4. COST-RISK-REVENUE FRAMEWORK: Analysis of sustainability initiatives in a 'Cost-Risk-Revenue Framework' perspective, understanding what value each initiative would bring to the company.
5. DEFINITION OF KEY INITIATIVES: the definition of the key initiatives was a product of the four steps below:
 - i. Rank of initiatives listed in *Figure 4* based in the value creation capability in the largest number of subjects within the Cost-Risk-Revenue framework.
 - ii. Selection of two initiatives based on critical thinking and considering those that B2W would probably relate the most. B2W's problem statement is clear in defining its main objective as finding a sustainability initiative that can create value to shareholders through cost reduction. Along the project development the host also has emphasized the importance of reaching their customers' heart through this same initiative, therefore adding another component to our analysis. The chosen initiatives would have to be grounded in cost reduction but would also have to become a strategy to build brand loyalty through differentiation. The selection of the key initiatives, therefore, takes into consideration those that would bring the biggest impact for the company in both cost reduction and differentiation according to our best judgment.
 - iii. Validation with B2W of the two initiatives selected.

²⁸ http://www.sustainablebrands.com/digital_learning/webinar/organizational_change/promise_systems_approach_sustainability



Figure 2 - SASB's e-commerce material issues distributed in Cost-Risk-Management Framework (Source: B2W MIT team)

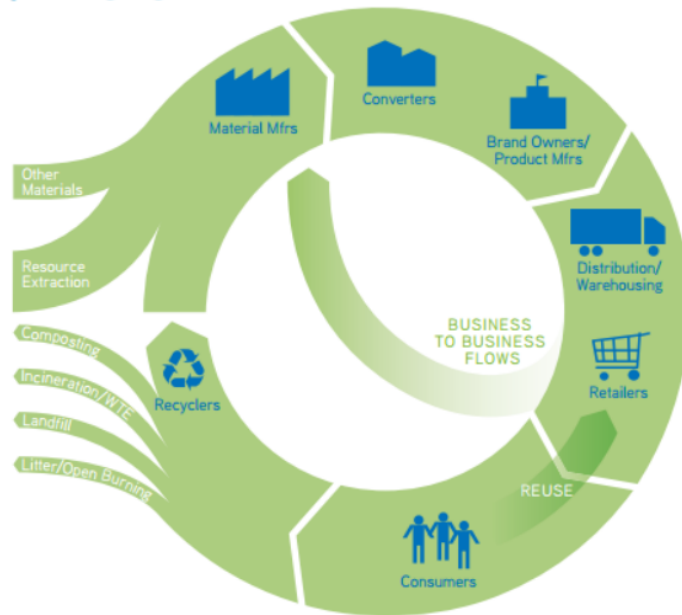
4. CASE STUDY: PACKAGING FOR SUSTAINABILITY

It is not easy to find example of sustainable practices with a clear context of the impact. Companies disclose part of the information of their initiatives to showcase them to the stakeholders but to protect their strategy, the information that would help understand the complete reach it is withhold. Nevertheless, in order to understand the ecosystem of sustainability in different industries it is necessary to look for these examples. Each company is responsible when looking at examples of initiatives taken by others to translate that into their own reality since the impact can differ from one company to another depending on the current state of each. In e-commerce, as in other industries, packaging is one of the areas that involves a complex group of stakeholders in the full life cycle of a package. It is important to have a clear understanding on who is involved and to what extent, in order to design a sustainable packaging.

The Sustainable Packaging Coalition²⁹ has identify 8 parameters to measure the sustainability of a packaging, with a main core indicators for each of them. The list can be a good tool to identify what are the main issues to be address by a company, which are priorities and why to select some over others.

²⁹ <http://www.sustainablepackaging.org/>

packaging material flows



Source: www.sustainablepackaging.org/Uploads/Resources/design_guidelines_sp.pdf

For any division in charge of packaging, the main concern is the unit cost per package. In the context of e-commerce there are some easy to find sustainable initiatives that can be visible to clients and at the same time help reduce costs. From the information we have available of B2W they are working on Total Cost of Packaging, Packaged Product Wastage, Recycling Packaging and Reuse of Packaging. Probably they are also implementing good practices in Work and Community Impact but we did not have the opportunity to review them.

Parameter	Core Indicator
Material Use	Total Material Use
	Material Use Reduction
	Material Waste
Energy Use	Total Life Cycle Energy Intensity
	Renewable Energy Proportion
Water Use	Life Cycle Water Consumption
	Life Cycle Water Used from Stressed Sources
Material Health	Toxicants Concentration
	Toxicants Migration

Parameter	Core Indicator
Clean Product and Transportation	Toxic Emissions
	Life Cycle GHG Emissions
	Air Emissions
	Water Emissions
Cost Performance	Total Cost of Packaging
	Packaged Product Wastage
	Life Cycle Embodied Energy Production
Community Impact	Product Safety
	Recycling Packaging
	Reuse of Packaging
	Landfilling of Packaging
	Packaging Energy Recovery Rate
Worker Impact	Child Labor
	Forced or Compulsory Labor
	Freedom of Associations and /or Collective Bargaining
	Discrimination
	Excessive Working Hours
	Remuneration
	Occupational Health
	Safety Performance
	Responsible Workplace Practices

Source: www.sustainablepackaging.org/Uploads/Resources/spc_indicator_metrics_framework.pdf

4.1 IDENTIFIED B2W CURRENT SUSTAINABLE INITIATIVES

B2W is trying to achieve cost savings by reducing the volume of the packaging and cardboard, and by using materials that can be more cost effective.

B2W has 9 DCs, of those 3 are very low in packaging use, and 20% of the commercialized products do not use any packaging at all. In October 2015 the company acquired 3 machines to recycle the boxes of the inbound merchandise to be reused in the filling of the outbound packaging. Previous to having the machines, B2W would pay a third party to go to their distribution centers (DCs) to collect the boxes of the inbound merchandise, and they would invest in products to be used in the filling of their packaging. Due to the positive results in cost reduction, B2W is adding an additional machine to the process. According to B2W, it is only economically viable to have a recycling machine at DCs that handle enough volume to make the investment viable. The recycling material today is serving 60% of the packaged parcels.

B2W has tried in the past to use smart resistance packaging, which optimize the amount of material use according to the content of the package; unfortunately, the metrics were not well implemented as many items were reported damaged during shipping and the initiative was cancelled. However, B2W is implementing a smart box packaging solution for all individual shipping which has proven to be a successful practice, and they are looking to extend this to grouping parcels. The initiative consists of adjustable boxes that correspond to the size of the product, minimizing the amount of material used, therefore allocating more packages to each shipping truck.

4.2 GOOD PRACTICES IN THE INDUSTRY

There are many examples of cost reduction achieved by improving packaging techniques that other companies have used to build on their brand proposition. In 2006 Walmart announced a *5-Year Plan* to reduce packaging. The outcome in savings on emissions was 667,000 metric tons of CO₂, a reduction of 323,800 tons of coal, and a decrease in 66.7 million gallons of fuel³⁰.

Another example is Amazon, which has announced a number of incentives and programs to reduce the environmental impact of their operations. *Frustration-Free Packaging* is a service and at the same time a certification that aims to eliminate complicated packaging, and replace it with 100% recyclable materials, packaged in a single box, thus eliminating the vendors' shipping box. Since launch, the program has certified over 200,000 items globally from over 2,000 leading brands³¹. *Environmentally Friendly Packaging* is an effort to switch the shipping container to corrugated material that is 43% recovered fiber content, and introduce packaging material for U.S. fulfillment that is 100% recyclable and made from 50% recycled content, along with air-filled pillows that are 100% recycled and non-toxic³².

Smart Way from EPA helps companies that ship goods or carry goods to improve efficiency by measuring, benchmarking and streamlining freight supply chain operations. It has achieved \$24.9 billion dollars in saved fuel costs by saving 170.3 million barrels of oil, 72.8 million metric tons of CO₂ reductions, 1,458,000 tons of mono-nitrogen oxides reductions and 72,000 tons of particulate matter reductions³³. It provides certification and a logo that can be visible for clients.

³⁰ <http://corporate.walmart.com/news/news-archive/2006/09/22/wal-mart-launches-5-year-plan-to-reduce-packaging>

³¹ <http://www.amazon.com/b?ie=UTF8&node=5521637011>

³² <http://www.amazon.com/b?node=13786321>

³³ <https://www3.epa.gov/otaq/smartway/forcountries/index.htm>

When thinking about logistics of packaging we should also expand to consider how products are shipped by plane. An interesting example is the initiative that FedEx is implementing for 2017 in partnership with Red Rock Biofuels to deliver packages using fuel in their planes made from forest waste. They are developing a processing plant to convert wood biomass into a renewable, drop-in diesel and jet fuels³⁴ with the goal of producing 48 million gallons of blend aviation fuel from biomaterial discarded from timber and sawmills and recycling materials.

4.3 OPPORTUNITIES

The initiatives conducted today by B2W, although they fit into sustainable initiatives, they have not been framed into sustainable initiatives but practices for cost reduction. These initiatives are an opportunity for the **department in charge of sustainability** at B2W to internally align the company to the benefits of sustainable programs. With the savings achieved by utilizing recycled material in the filling of the packaging it is possible to prove the cost reductions and to incentivize other departments to review their processes in order to detect what additional sustainable initiatives can help them reduce costs. For example, there is an opportunity to push for a zero waste strategy.

Another aspect to take into consideration is the value of communicating the sustainable initiatives to **clients** in order to improve client satisfaction and loyalty. The new techniques in packaging implemented by B2W are not currently advertised to the clients and this is a big opportunity to showcase their good practices and appeal to the hearts of their consumers.

B2W is considering the direct cost reduction when calculating their ROI initiatives, but is not yet measuring their savings in carbon emission and energy and fuel, which could prove important value to shareholders and their clients.

Smart Way³⁵ have an international program that could be an interesting partnership for B2W. Both improving their logistics practices and obtaining a certification that can be visible to their clients.

There are opportunities for B2W to implement simple rules that can impact in efficiencies of fuel utilization and reduction in CO₂ emissions. Tim Greiner, Pure Strategies³⁶ Co-founder and Managing Director, indicated to us that Staples was able to have significant savings in fuel by introducing a governor to their trucks that would not

³⁴ <http://about.van.fedex.com/blog/biofuels-take-flight-with-fedex-infographic/>

³⁵ <https://www3.epa.gov/smartway/>

³⁶ <http://purestrategies.com/>

allow them to go above 55 miles per hour³⁷. This is an initiative that could be replicated by B2W in their own fleet and on restricted 3rd party vehicles.

For international inbound products B2W should analyze what partner can best align with their sustainable initiatives. Looking into practices like the one that FedEx is implementing.

Smarter Forests, Smarter Fuel, Smarter Flights FedEx®

FedEx is working with Red Rock Biofuels to turn forest waste into jet fuel. Creating a smarter fuel means we can deliver your packages more sustainably.

Discarded branches, bark and pine needles are gathered up from timber and saw mill operations in Lakeview, OR.

Recycling this waste reduces combustible materials from the forest floor and reduces the risk of forest fires.

Forest waste is transported to Red Rock Biofuels, where a combination of heat, pressure and reclaimed water produces a renewable biofuel that reduces carbon emissions.

48 million gallons of blended aviation fuel will be used at the FedEx Oakland hub starting in 2017.

This process also will create about 100 jobs in the local community.

earthSMART
FedEx solutions for a more sustainable world

To learn more about FedEx sustainability efforts go to csr.fedex.com.

Source: <http://about.van.fedex.com/wp-content/uploads/2015/12/FedEx-BioFuel-Infographic.pdf>

³⁷ <http://www.cbsnews.com/news/5-ways-staples-is-getting-greener/>

5. CONTEXT AND CONDITIONS

When we discovered that some areas were already executing high impact sustainability initiatives, with no association to sustainability but for operational efficiency purposes, it was impressive to observe the excitement of the managers towards the new perspectives. This fact put us to think harder about the way companies ~~learns and grows~~ together. Peter Senge³⁸ in his book *“The Fifth Discipline”*³⁹ provides detailed insights about how companies ~~loses~~ these abilities over time and also how to revert those patterns. The answer is not short and ~~no~~ subject of this paper, but we ~~see~~ have identified some of the traditional behaviors that may be holding B2W from ~~expand and flourish~~ fast towards a more sustainable state. This idea has strong implications on the success of sustainability initiatives for companies. The difficulties ~~to address~~ sustainability initiatives may not be the lack of willingness, commitment or resources to advance through the sustainability path, it may be the difficulty of having ~~sustainability strategy~~ penetrate the organization. Helping the information flow across functions could be the balm companies need to move forward.

For ~~MIT~~ team, this also represents ~~a~~ great learning opportunity that slightly changed the scope of our work and the way we approached the solution to the problem. We had originally anticipated that we would invest most of our time discussing ~~about~~ each of the sustainability initiatives and how they would impact B2W in different ways, but we feel our host is in a better position to roll up their sleeves and put their hands in some mud. But as stated before, sustainability is not going to happen unless B2W is able to engage in open and candid conversations. To be able to apply the approach described in this report, it is necessary to improve the conditions for sustainability initiatives in several ways.

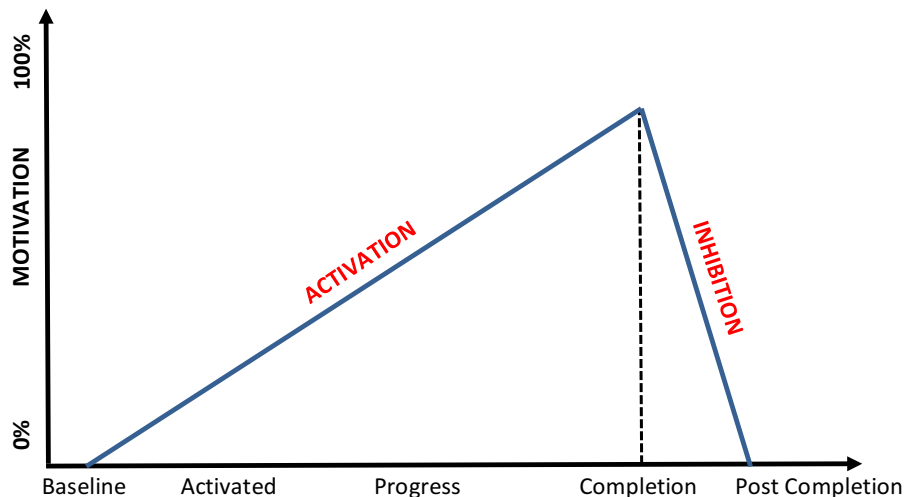
5.1 ENGAGING EMPLOYEES

Consumer Behavior class at MIT teaches us that that human beings need to be motivated to work towards an objective. The closer we are from our target, the stronger

³⁸ <http://mitsloan.mit.edu/faculty-and-research/faculty-directory/detail/?id=41415>

³⁹ <https://www.solonline.org/page/FifthDiscipline>

the motivation will be. According to this principle, the hardest motivational effort has to be made at the beginning, when there is absolutely no progress on that enterprise. This initial effort must be done to break the inertia and activate people to start a motivational journey towards the completion of the task.



Source: MIT 15.847 Consumer Behavior lecture.

After conversations with B2W managers, they figured out they had already made progress towards important sustainability goals, which dramatically increased their motivation to move forward down that path. This should be enough of an impulse to start moving the organization forward, and as long as sustainability employees keep setting new objectives, engaging other areas for new projects and internally promoting sustainability.

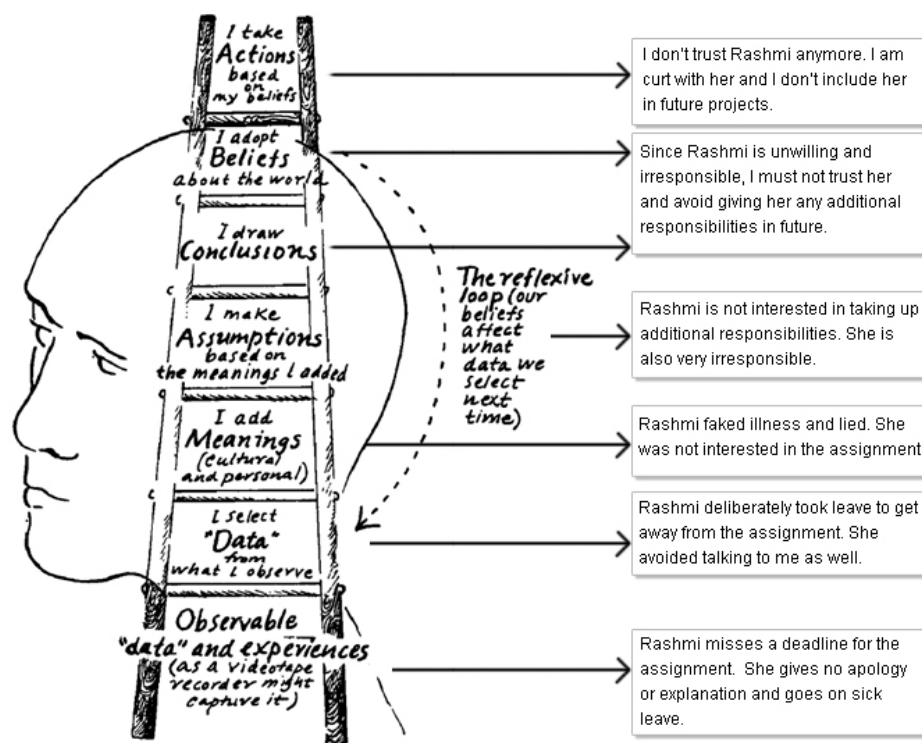
Takeaway: Help personnel connect their current projects and jobs to sustainability initiatives, enabling the activation of the motivation towards these new objectives.

5.2 CLEANING MENTAL MODELS

Mental models make people believe strongly in ideas that may not be correct. Sustainability is a victim of mental models inside organizations in two ways. First, most executives and employees tend to think that sustainability initiatives will bring no

economic benefit for the company, only additional costs. Second, people think that sustainability is about being kind to the planet and the mother nature, and fail to see it is all about survival of their companies (and source of income) and their own existence as individuals, as well as their descendants. Reality is that most sustainability initiatives can have positive ROI through reducing costs, mitigating risks or increasing the willingness to pay, and reality is that all the harm we do to the environment affects us, but sometimes we don't want to see it.

An interesting tool to help people identify and override their own mental models is the "Ladder of Inference", described in Peter Senge's⁴⁰ book, "The Necessary Revolution"⁴¹, a tool that is thought to all MIT students that takes Leadership Lab⁴² elective. The tool describes how humans create their first beliefs about reality, based on observable data



(Source: The Fifth Discipline By Peter Senge)

⁴⁰ Peter Senge is a Senior Lecturer in Leadership and Sustainability at the MIT Sloan School of Management. <http://mitsloan.mit.edu/faculty-and-research/faculty-directory/detail/?id=41415>

⁴¹ <http://www.amazon.com/gp/product/B0018QSO94/ref=dp-kindle-redirect?ie=UTF8&btkr=1>

⁴² <http://mitsloan.mit.edu/actionlearning/labs/l-lab.php>

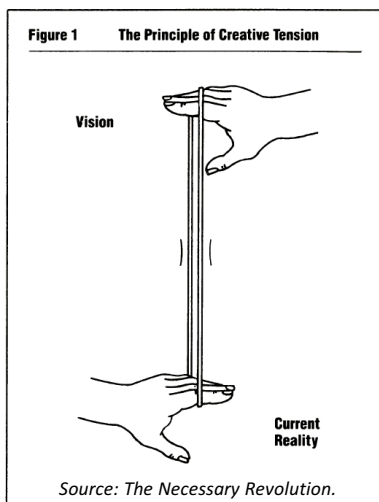
processed through their own background and perceptions of what the truth is. Later on, we use that knowledge to quickly jump into inferences when we are exposed to similar data again, creating a self-reinforcing loop over our perceptions that gradually creates our mental models.

The ladder is a metaphor of how our mind works. People able to suspend their own assumptions can see how others draw different conclusion to the same observations, because their background and meanings (cultural and personal) are different. Teams that can avoid to quickly jump into inferences based on their own mental models will enjoy more objective and productive discussions that will open them to unlimited learning.

Takeaway: Use tools to help people inside the organization understand how they may be drawing into wrong conclusions, basing their thinking in mental models.

5.3 USING CREATIVE TENSION AND CREATING A COMMON VISION

It has been identified long ago that companies that survives for long time are those who



can learn continuously, setting new frontiers and repositioning themselves away from the reach of followers and competitors. Peter Senge⁴³, in his book *The Fifth Discipline*⁴⁴, described this situation using a very simple and yet compelling analogy. Creative tension is generated when a vision is generated and shared across the company, while telling the truth about the current reality. That gap between both, common vision and current state will create the tension that can be closed over time

⁴³ Peter Senge is a Senior Lecturer in Leadership and Sustainability at the MIT Sloan School of Management. <http://mitsloan.mit.edu/faculty-and-research/faculty-directory/detail/?id=41415>

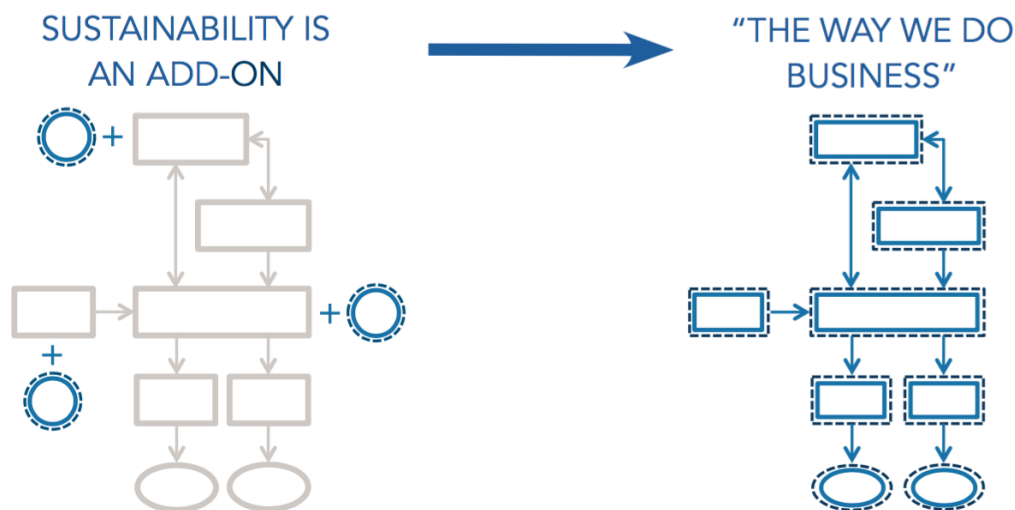
⁴⁴ <https://www.solonline.org/page/FifthDiscipline>

by one of two methods: (1) actively moving current reality towards the shared vision or, (2) relaxing the vision to come closer to current reality. Companies capable of sustaining or raising their visions while keeping the awareness about current reality alive, are the ones that will continue moving forward and thriving.



5.4 EMBEDDING SUSTAINABILITY INTO STRATEGY

The Embedding Project⁴⁵ describes with clarity that organizations, in order to be successful in driving sustainable initiatives, must embed, or integrate, “sustainability across the business to the point that is no longer an add-on but simply the way to do business”.



Source: *The embedding project.*

Traditionally, a company that is working to launch a new product to market, will integrate all disciplines in the process to make sure all aspects are considered: R&D, manufacturing, sourcing, packaging, sales, marketing and finance, in order to create a complete and compelling story around the product before launching the product. Nobody would consider developing a new product without the involvement of manufacturing, or finance, that is just the way companies do business. Sustainability, in most companies, would not be and integrated part of this initiative, it would probably

⁴⁵ <https://embeddingproject.org/>

be a contributor to provide an outsider perspective on some specific aspects, that may or may not be taken into consideration. What embedding sustainability into strategy means, is that sustainability must be just another pieces of the puzzle.

Takeaway: sustainability must be placed at the same level and with the same specific weight as other functions to become the way to do business, not an add-on.

6. LIMITATIONS

We've discovered that companies have some limitations to the applicability of the framework previously described. These limitations are not strictly related to sustainability but are the heritage of a long lasting tradition of financial results as the only measure of corporate success and reward to the executives. Sustainability projects that requires resources, will be limited by the same principles, the tools that companies use to differentiate good projects from not so good projects.

6.1 FINANCIAL EVALUATION

Paybacks are usually short. 24 months and sometimes 12 months, as in the case of B2W. Low investment and high ROI initiatives are good to pass this filter and get budget, but plenty of sustainability initiatives will require a different rule. Initiatives that will mitigate risks or build reputation are hard to evaluate. How do you calculate a cash flow coming from the fact that consumers respect your brand more than the competition, when at the same time Marketing is also investing in advertising? It's hard to allocate only a fraction of positive outcomes coming from sustainability initiatives that build reputation, and put that in terms of NPV. With this approach, there is no way the CFO will approve budget for such projects, and so, sustainability is doomed to simple and quick actions. Sustainability officers have the duty to bring this conversation to the right audience, the CEO or the company directors, to create and alternative way to allocate budget for initiatives that have hard to measure impact and longer term returns.

Takeaway: sustainability initiatives must not be evaluated with the same rule as other corporate investment projects, because the corporate policy will discard material and profitable actions that are harder to measure in traditional terms. Corporations should take a longer term approach to sustainability.

6.2 MISALIGNMENT WITH CORPORATE OBJECTIVES

It has been commented in this report that some of the projects in which companies will naturally engage, are high impact sustainability initiatives, and that sustainability officers should take advantage of such natural alignment on order to promote, engage and measure. But once those projects are finished and further operational efficiencies are hard to obtain, sustainability initiatives will have a difficulties finding sponsors, resources and focus, as long as their objectives are not perfectly aligned with the corporation's. Sustainability officers must convince the company directors that sustainability measures will be key for investors and stakeholders' interests and so, sustainability should be part of the corporate objectives and executive rewards. It has been proposed by Professor Robert Eccles⁴⁶, faculty of Harvard Business School, that companies that ~~and~~ performs well in material sustainability initiatives, financially outperform similar companies that don't perform in material sustainability projects.

Takeaway: directors must be persuaded to include sustainability measures as part of the corporate objectives and executive incentives, with the argument that this will help the company outperform it competitors.

6.3 IMMATERIAL INITIATIVES

Materiality is an outstanding concept to discuss which sustainability initiatives must be engaged. It brings objectivity to the conversation and a common language across executives and investors and make it easier to understand each other. But materiality,

⁴⁶ <http://www.hbs.edu/faculty/Pages/profile.aspx?faclid=126059>

purely defined and an accounting concept (which is the same definition used by SASB), fails to leave room for initiatives that will not have a significant [material] impact on the 10-K. As argued before, sustainability also acknowledges that there are initiatives that may have relevant impacts that are hard to measure monetarily, that look to promote diversity, employee satisfaction, reputation or risk mitigation, and that may be critical for a business but still don't have material impact from the accounting point of view. It is important for sustainability officers to broaden the scope of sustainability benefits to other metrics that open the door for executing a larger array of projects.

Takeaway: Materiality is an extraordinary tool to measure relevancy of sustainability initiatives, but don't get stuck on it to avoid discarding great initiatives that are not material.

