Measuring Up
Moving Beyond Environmental Metrics Based on Benchmarking and Reporting Standards

Competitive Strategy by Richard MacLean

If imitation is the greatest form of flattery, there is a whole lot of flattery going on when it comes to environmental metrics. Companies typically focus on three areas: regulatory requirements, reporting standards such as the Global Reporting Initiative (GRI), and industry benchmarking. That is fine for showcasing performance to external stakeholders, but this approach represents neither a metrics strategy nor a competitive business approach.

Indeed, it amazes me how much effort is devoted to finding the "right" metric set, as defined by what others are doing, requiring, or recommending. Benchmarking is important, of course, and executives love to see where they stand relative to the competition. But this approach to metrics strategy may not give much insight into long-term competitive positioning.

So what metrics are strategic and how do you identify and measure them? To answer these questions, we must explore the basics of metrics and how environmental professionals can add strategic value.

Metric Fundamentals

There are two types of internal business measurement systems: management accounting and financial accounting. Financial accounting was developed to satisfy the needs of the investment community. What, how, and when these numbers are tracked and reported are controlled by the Financial Accounting Standards Board's (FASB) and the Security and Exchange Commission's (SEC) rules and guidelines. They are almost always lagging indicators; the final results.

Management accounting, however, tracks the numbers needed to run the business. These numbers generally are not reported externally; indeed, most are confidential. The plant manager may be aware of the financial numbers reported to investors, but the numbers that really attract attention are things such as the widget rejection rate. These numbers are often leading indicators of longer term financial performance (and the plant manager's bonus).

Business managers now recognize that a myopic focus on the bottom line and lagging indicators is no way to successfully run a business. Business tools such as the balanced scorecard have driven this point home for decades by underscoring the importance of a blend of key metrics. While environmental professionals have embraced the need for both lagging and leading indicators, much of their thinking is still dominated by what other companies track and report or by what government agencies or nongovernmental organizations request. It's as if the metric set that matters is the one prescribed by some external accounting body akin to the SEC. With the advent of the GRI, this depiction may not be too far from reality.

Yes, a few of these numbers may matter, especially in the short term, if the company is at the bottom of the environmental performance heap. In fact, they may strategically matter if, for example, an abysmal compliance or accident record becomes a public relations issue. But for most companies and under most circumstances, these metrics are not the numbers that will drive long-term competitive success, any more than a few bottom-line financial metrics will drive business success over the long term.

In addition, the gold standards of environmental metrics—violations and fines—offer a rather dismal and narrow view of what environmental professionals can bring to the table. Environmental becomes only a cost-of-doing-business and the payout is problem avoidance.

A Strategic Metric Set

Environmental professionals create the most strategic business value when they are early predictors of key emerging issues and opportunities. For that matter, anyone inside a business can add strategic value if they can improve or create new products and services or production, sales, or marketing approaches. In addition, those who can help shape the company's strategic vision or help business executives achieve their vision add real value.

With the advent of "green marketing," energy conservation, supply chain, and global warming issues, our role in supporting strategic business objectives is becoming not just important, but crucial. These are just a few potential emerging dimensions; there are hundreds of other issues and opportunities for companies of any size to gain an edge. And do not make the mistake of assuming that only major corporations have anything to gain by examining global environmental and corporate social responsibility issues strategically.

A Metrics Strategy

A metrics strategy centers on determining what really matters now and in the future to internal and external stakeholders. Sounds obvious, but how do you get at these metrics? First, the effort required to gain this knowledge is significant—it has little to do with benchmarking or the GRI; instead, it has everything to do with understanding the business strategy and executive management's long-term objectives. The place to start is with the fundamentals: the corporate environmental policy, vision, and mission. Again, sounds obvious, but few companies start with the fundamentals.

The problem is that these guiding principles often are created with political correctness in mind. Benchmarking also has a heavy influence on the process used to create these guiding principles, rather than frank and meaningful discussions with the executive management and the board of directors. The usual creation process is for the environmental department—in near isolation—to come up with a draft for approval and then sell this to a detached business management group using the fact that it is consistent with "current practice."

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Environmental policy, vision, mission, and strategy should be derived from an intense series of information exchanges with management so that both parties (environmental and business management) can make informed decisions. This includes discussion on research and development activities, emerging issues, and business plans and objectives. It takes weeks of energy, potentially dozens of meetings, and possibly outside input and facilitation. If this process is done properly, the metrics can be mapped easily between what is truly important to the business and the leading or lagging environmental metrics that track these issues.

The same mapping strategy applies to external stakeholders. First, research should be done to determine what really matters to stakeholders based on internal concerns and the potential impact of emerging issues on the company. Individual nongovernmental or research organizations may dictate either the politics or the science—or both—for these issues. Ideally, key stakeholders are interviewed, either directly in the case of community concerns, or possibly through a neutral third party in the case of activist organizations.

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Once this work is completed, it is then possible to map the issues and look for overlaps and patterns. When I have done this for clients, the key issues and the metrics that track key issues and opportunities become so obvious, they literally jump out from the page.

No time and resources for this level of consideration, you say? It takes an effort on the same level as that required by the all-too-common environmental crisis. Goodness knows the resources are always available for that activity.

Aside from becoming proactive rather than reactive, the greatest benefit from this strategy is that the metrics now have meaning and strategic significance for business management. In other words, they become *their* key performance indicators, not *your* metrics. Each is tracked for a reason and each has significance. Business management now knows the relevance of environmental issues, opportunities, and what's at stake. **em**