

What's the winning strategy?

The competitive game plan for sustainable development

By Richard MacLean

Sustainable development (SD) has made it as far as the public relations lexicon of most companies, but that's about it. It remains a total mystery to business executives and even to many environmental professionals. Like any sports game, unless you understand the rules and know the players, it is very confusing and hard to follow. Just what does all this stuff really mean to running a competitive business? Why do we even play this game?

This month we translate the warm and fuzzy concepts of sustainable development into terminology and a winning strategy that every business executive can understand. In the player's language of sustainable development, metrics represent the score card.

Everyone is talking about sustainable development, but few actually understand its business significance, other than, "We are all for it!" Sustainable development is not another buzzword; it represents a major competitive threat or opportunity to many companies. The key to understanding these dynamics is found in how SD will be measured and how these metrics (measurements of performance) will be utilized in the future to get your company squarely onto the playing field where sustainability is the name of the game, and the best team wins.

Environmental managers recognize that programs focused exclusively on compliance offer few competitive business advantages. A company's existing operations are allowed to continue functioning and yet not be penalized with regulatory fines. What is not as widely recognized today is that traditional environmental metrics suggest few insights into how to gain competitive advantage. Moreover, business managers have been lulled into thinking that: (a) their current internal and external reporting efforts (i.e., rolling up the traditional metrics) will keep them informed of performance trends; and (b) voluntary reporting will continue indefinitely. Do not count on either.

When a metric is relevant, understandable and reliable, it can impact consumer/voter choice and ultimately influence legislative and regulatory action. SD metrics theory and practice has undergone a significant evolution over the past five years, and it is reaching the point where disclosure of comparable, reliable metrics will influence customer choices and supply chain dynamics. A window into the future is provided by the emergence of a number of private sector voluntary environmental standards in the marketplace.

Three of the most recent examples of the game rules being changed by the home team are (a) Ford Motor Company imposing ISO 14001 or Responsible Care certification onto its supply chain, (b) Chiquita Brands International Inc. agreeing to the Better Banana Project guidelines, and (c) Home Depot Inc. requiring certification of its wood products from the Forest Stewardship Council. These are, in effect, binary metrics: certification? Yes/No. It does not take much imagination, however, to visualize companies in the future certified according to minimum environmental performance metrics, products labeled according to environmental intensity, or impacts, and supply chain requirements tied into minimum performance beyond ISO certification.

A few "consumer friendly" metrics have been around for years (e.g., miles per gallon fuel consumption, energy consumption on appliances) and now are drawing increased attention by governments, consumers and industry. The move to establish a wide spectrum of comparable standards has already started. Most of the action is centered outside the United States in organizations such as the World Business Council for Sustainable Developments (WBCSD), Organization for Economic Cooperation and Development (OECD), European Eco-Efficiency Initiative (EEEI) and National Round Table on the Environment and the Economy (NRTEE).

Transition from the old game of pollution control

In spite of the complaints by business executives of the U.S. regulatory burden, there is a certain comfort in the current perceived stability. Almost everyone knows exactly how to play the game. Regulations can take years to legislate and promulgate, and the penalty to the environment is that with enough money corporations can control or at least minimize the outcomes. The infrastructure that companies have invested in for the past 30 years represents a barrier for entrance by new competitors. Just try to build a refinery or power plant in Los Angeles. Metrics such as the Toxic Release Inventory have been around for more than a decade and the public has grown complacent with the information.

Consumer friendly metrics are an entirely new arena for business management. Demand for disclosure can happen very quickly, and self-disclosure can happen in days if consumer pressure skyrockets. The politics of corporate disclosure can shift suddenly and unpredictably if your EHS metric becomes the cause célèbre. Relying on a traditional metric set and reacting to emerging issues may not be the best business strategy.

My read of the politics of metrics is that Europe or Canada will shape these dynamics, not the United States. Monsanto found this out the hard way with biotech crops, in which the metric of consumer interest has become the concentration of genetically modified ingredients in food products. Zero seems to be the threshold today if you want to remain competitive selling your potatoes or corn chips to fast food outlets. Ironically, it was Monsanto's Robert Shapiro who was one of the early CEO proponents of SD. In his now famous 1997 interview in the *Harvard Business Review*, he articulated concepts of SD extremely well, but he misjudged just how difficult this game is to play.

A few companies are beginning to move beyond the oratory and position themselves

for a new environmental era anchored in SD and social responsibility. For example, Competitive Environment, an environmental consulting firm, is assisting clients in examining how their products, processes and supply chain will stack up against a set of SD metrics *relative to their competitors*. The companies with superior metrics may use their position to influence their customers, leverage expansion opportunities or support governmental regulations that favor their competitive EHS advantage.

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Keeping score on SD performance metrics may some day lead to new forms of hardball competition. Good *comparative* EHS competitive intelligence is very difficult to obtain, and few go through the effort to assemble it. It can take years to establish and build a reliable database. Business decisions based on this information involve risk and liability assessments and are very tricky, requiring a multidisciplinary approach. Leading companies recognize these dynamics and are not waiting for outside influences to dominate their internal management decisions.

Getting in the game

The challenge is to advance — move from the “minors to the majors” — along the stages of metrics development as illustrated

in **Figure 1**. Unfortunately, most of the companies that Competitive Environment has evaluated are stuck at mid-point, still struggling to measure traditional internal performance indicators. It's not about what *you* are interested in or have measured in the past; this is about what your stakeholders will be interested in and where you will stand relative to your competitors. It has nothing to do with nice phrases such as “a system of commerce and production in which each and every act is inherently sustainable and restorative.” This is hardball competition. Business executives understand hardball, so how do you play it in the SD arena?

Competitive Environment examines the players who really matter in this new game. Often these groups are the non-governmental organizations (NGOs) and the governments that are either setting the agenda, defining the science of emerging metrics or can influence national regulations or legislation. In this new ball game, the U.S. Environmental Protection Agency (EPA) is usually found to be playing in the minor leagues. Not only that, but a growing number of consumers, who in the past have been relegated to the sidelines, are stepping up to the plate and demanding a turn. They want sustainable products and services that don't cost the earth. Do not underestimate this new breed of rookies affecting the outcome of the game by influencing the direction of the market. Wise business managers are using this power play set up by their customers as one of their key tools in creating a winning strategy.

Once all the players are understood and accounted for, the next step is to understand which metrics are the ones that will really matter — what the crowd (i.e., all stakeholders) will want to see on the scoreboard. They are often not the ones that are currently tracked. The next step, and often the most difficult, is to determine the competitive landscape (i.e., performance of the other

Leaders in the development of comparable metrics

- World Business Council for Sustainable Developments (WBCSD) — <http://www.wbcsd.org/ecoeff1.htm>
- Organization for Economic Cooperation and Development (OECD) — <http://www.oecd.org/subject/sustdev/>
- European Eco-Efficiency Initiative (EEEI) — <http://www.wbcsd.org/eurint/eeei.htm>
- National Round Table on the Environment and the Economy (NRTEE) — http://www.nrtee-trnee.ca/eng/programs/eco-efficiency/ecoefficiency_e.htm

teams) relative to these metrics. The final steps include business management training in the rules of the game and the development of a game plan to position the company either defensively (e.g., improving ones position to not be below some minimum threshold) or to take the offense (e.g., using one's top tier performance to corner market share).

No, it is not as easy as it seems, but unfortunately, today environmental and business managers are not even in the ballpark where the real action is. They are still giving reports to the owners using scorecards developed twenty years ago. What field are you playing on? Are you still bringing a softball to the sustainability game? And, are you paying attention to which direction the hardball is coming from? Your company cannot afford to be playing blindfolded at the bottom of the ninth. **EP**

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So what is the definition of sustainable development?

The most frequently cited definition comes from the Brundtland Commission, which in 1987 linked sustainable development with progress that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”

In business terms, this definition is “not actionable.” Just what is the company specifically supposed to do? Emerging performance metrics make the hard-wired connection between the fuzzy definitions of SD that baffle business executives and actionable business targets and goals.

Figure 1. Metric Stages of Play

