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Ask the Experts

by Steve Rice & Richard MacLean

April 2002

Forecast for Environmental Management Systems

Also this month:

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Q: What do you see as the future for formal environmental management systems?

Steve: As noted last month, there is not a consensus that standardized environmental management systems (EMSs) provide quantifiable value to the companies and facilities that implement them. The main argument for EMSs is that they raise issues and force companies

and facilities to look at their environmental management systems when otherwise they may not. The main argument against them is that they focus on the documentation of processes, not improving performance. Ironically, these are the issues still dogging other management standards like ISO9000, QS900 and others.

Most research, including a recent report, "Environmental Management Systems in the Waste Management Value Chain: A Scoping Survey On Use and Trends" conducted by the International Association for Environmental Cooperation (IAEC), indicates that the primary reasons companies cite for pursuing standardized EMSs are a) customer/public perception and b) supply chain requirements, hardly a rousing reward for the effort and costs involved. I have seen no indications that ISO14001 will become a supply chain requirement for a particular industry, though there are and will be individual customer/supplier situations.

As for the future, I believe that to grow or even survive, EMSs will be approached from two very different directions. The first approach will be to recognize EMSs for what they really are - a path for improving environmental performance. Companies following this direction will use EMSs, particularly ISO14001, in an organizational management context. Their emphasis will shift efforts from "beyond compliance" to "beyond certification" as companies seek to use their ISO14001 process and certification to change organizational culture, behavior and performance, not merely obtain certification.

ERMCVS, a verification and certification services provider, uses this approach to distinguish itself in the market place by focusing on the value and performance that an ISO14001 process and certification can provide, rather than on the documentation. This, ERMCVS Chief Executive Brian Kraus indicates in a recent edition of ENDS (a U.K. journal), will be the "action needed to prevent meltdown in ISO14001 credibility."

The second approach will be the application of business management processes like Six Sigma to environmental management activities, as is currently being done in companies like Honeywell and General Electric. This has the advantage of consistency and integration, where the system used by the environmental staff and the rest of the company are identical. Environmental organizations and staff no longer follow a separate path and results are defined in terms that non-environmental professionals can readily understand and appreciate. This also helps environmental organizations be perceived as a more integrated element of the larger organization, not merely a separate, isolated entity. Its disadvantage is that it provides neither a systems assessment of, nor approach to, environmental management.

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Q: What is the definition of Environmental Excellence?

Richard: There is no "official definition." That may seem surprising, since the phrase is so widely used (e.g., 573,000 hits on an internet search!). There are even institutes for environmental excellence, but no widely accepted definition.

Around a decade ago, the term was very much in vogue, similar to popularity of sustainable development today. These terms share similarities: (1) no universally accepted definition (the 1987 Brundtland commission offers the most commonly accepted definition for sustainable development, but the "Triple Bottom Line" is vying for first place); and (2) business management is all for them (although they are not always certain what they really mean in actionable terms). Public relations pieces are filled with both terms, but when they involve substantial resource investments, knees get all wobbly.

When environmental excellence rose to prominence, EHS departments were still trying to get their houses in order and build the systems that are so very well defined and common today. Because it was an abstract term back then, "environmental excellence" made it into the mission and policy statements of scores of companies. After all, who could be held strictly accountable for something that was ethereal?

Sufficient time has elapsed since the term first appeared; the lower platform of basic environmental management is now very well established. Thus, while environmental excellence may still elude definition, one could confidentially conclude that it is at least better than the basics. This is a critical point. There are well-developed tools to quantitatively measure a company's status with respect to environmental management system (EMS) implementation. If your company's environmental policy states that excellence is the objective and a basic EMS does not even exist, you have a very big gap.

The media loves gaps. Companies appear to be disingenuous; witness the feeding frenzy with Enron. Even more important, if there is a lawsuit and your EMS is found to not pass muster, punitive damages may be in order, since the company was clearly not following its own policies.

My definition is as follows: *fully implemented, state of the art EMS; performance at least in the upper half of your industry sector; and one or more cutting edge initiatives.* Recognize also that this definition is a moving performance target.

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Q: What is the status of Safety-Kleen's bankruptcy proceeding and will it have any significant impact on the hazardous waste management marketplace ?

Steve: Safety-Kleen is one of several major hazardous waste management firms that have undergone a series of acquisitions and consolidations in an effort to maintain, or return to, profitability. While overcapacity and high fixed capital costs are unfriendly to any industry, they are especially brutal to a service-based industry.

Many of us expected Safety-Kleen and its facilities to be broken apart and sold piece-meal to complement individual companies' specific regional and facility needs. Instead, in a bold move, Clean Harbors Environmental Services has reached an agreement to purchase the

entire suite of Safety-Kleen facilities, except for the Pinewood landfill, and the "Yellow Truck" parts washing business. Once the purchase is fully approved by the bankruptcy court, this move vaults Clean Harbors into a major position in the North American hazardous waste management market.

The next question, then, is "Will their acquisition be successful from a financial business perspective?" On the broader merger and acquisition front, the track record is not very good. Thom Calandra, in a March 20th article on ,a href= http://cbs.marketwatch.com/news/default.asp?siteid=mktw>cbs.marketwatch.com, provides a litany of examples of good intentions gone bad. He also states that "one of the most cited studies comes from consultant McKinsey & Co., which found that 61 percent of acquisitions were failures.." He notes that Tom Taulli has developed an M&A Hall of Shame ahead of the publication of his upcoming "The Complete M&A Handbook" (Prima Publishing).

Contrary to the trend, hopefully, Clean Harbors appears to be one of a small handful of companies in the industry with a sufficiently strong balance sheet to integrate such a large acquisition. They have a steady track record of performance that should be bolstered by an even greater market presence.

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If all companies have their unique cultures, can EHS staffing and organizational best practices be generalized among companies?

Richard: Some things cannot be directly translated; however, other best practices can be universally adapted. This applies to EHS management, as well as business management. If every company were truly unique, management consultants and the university professors who write volumes on organizational practice would be hard pressed to develop unifying theories.

There have been, of course, many common approaches to effectively organize and run businesses. Enterprise resource planning, reengineering, Six Sigma, etc. can be modified to meet specific company objectives, but each has its common underlying theory and best practices. The bottom line is that management philosophies can be generalized and translated among companies. This is especially true for similar sized companies in the same industry sector.

Unfortunately, some business managers have attempted to use business management techniques (usually with cost cutting as the primary objective) to re-organize EHS departments without sufficient recognition of the unique issues involved. The method that is least translatable among companies is the one that business managers most often use, namely comparing EHS staff size ratios. A simple ratio such as number of employees per total revenues is bogus comparison tool, but EHS staffs are routinely hammered on this point. A previous Ask the Experts (GreenBiz.com, August 2001) addressed this topic.

The trend in the 1990s toward shared services and outsourcing is another area where "less than desirable" results have been obtained when improperly applied to EHS. Management, viewing EHS solely as a service-type function, grouped EHS functions with other service groups such as accounting, engineering, and human resources. In some companies, this had disastrous consequences when EHS governance functions were views as "service options" by the business units.

Our research with the Center for Environmental Innovation (Organizations in Transition) has shown that there are universally applicable best practices for EHS management. Again, the specific practice must be modified to meet company needs, but the unifying theory is the same. For example, the various functions provided by EHS appear to fall within four distinct clusters of activities. Thus, while companies may organize differently to provide technical services, governance, human capital and strategic support, management, as a minimum, must recognize that these are distinct functions that must be considered individually in the organizational design.

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Q: Has investment in the environmental technology market seen a rebound yet, and where can I go to find interested investors?

Steve: I have not seen anything that would suggest a significant change in any of my previous comments. For the most part the investment community remains disinterested in environmental technology.

For example, Wired.com recently interviewed me on the topic. The editor eventually made the decision to pull the article before it was published because, I was told, the topic was not of sufficient importance or relevance to its technology-oriented readers.

Fortunately, of the 53 companies exhibiting at this year's New Jersey Technical Council's recent New Jersey Venture Fair, I can classify at least one as providing an environmental technology - Hydroglobe. This company is an offshoot of Stevens Institute of Technology and has developed technology that removes low levels of arsenic from drinking water, in anticipation of the pending federal standard to reduce the arsenic level from 50ppm to 10ppm. Readers may recall that drinking water supply and treatment is one of the few environmental technology areas I have identified for future success.

If you want to find potential investors and venture capitalist groups for your business, look for those specializing in environmental technology. One of the best places to find them is on the Venture Capital / Financing section on SustainableBusiness.com. While many of the listings date from 1999 and 2000, it is perhaps the most comprehensive, single listing that I have found. It also includes social- and regional-specific investment organizations.

As noted in previous columns, the investment community is still searching for solid, profitable

business opportunities. If there is a significant need that can be met by an environmental technology that provides a solution "better, faster, cheaper" AND can become a business that is large enough to provide a substantive profit in return for the investment placed and risk encountered, they will invest in the business. The second element is just as important as the first, though is often overlooked by those developing the technology. Technology is only the path, not the destination.

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We can't guarantee that we'll answer every question, but we'll try.

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