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**Ask the Experts**
 by Steve Rice & Richard MacLean
February 2001
Separate Fluff, Stuff in Picking Sustainability Stars**Also this month:**

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Q: Which sector of industry is most committed to sustainable development?

Richard: That's hard to say; it is difficult to sift reality from the public relations hype. For example, there has been a rapid increase in the publication of sustainable development or "social responsibility" reports. [SustainAbility](#), a London-based consulting firm, reports that 28 percent of the 200 major, non-reporting companies examined in 1998 have begun reporting. Originally focusing on environmental, health and safety issues, this newer generation of reports often encompasses community relationships and provides specific information on the company's efforts at sustainable development.

Sustainable development is a hot topic. But is there true commitment behind the words? A recent report, the [New Economics Foundation's Corporate Spin: The Troubled Teenager Years of Social Reporting](#), claims that there are huge discrepancies between what some of the leading companies say they do and what they do. Another recent SustainAbility report, The Global Reporters, claims that companies are more transparent, but also fail to address the major environmental and social impacts, including sustainable development.

Another challenge to identifying the best industry sectors is that there is no common opinion as to what top-level sustainable development performance means in measurable business terms. Without standard metrics, who can tell the good from the bad from the ugly?

A better identifier may be to determine the industry sectors that are taking action -- the industries committing substantial resources and executive management attention. To determine which industry sectors these might be, ask, "Which sectors will be the major winners or losers in the sustainable development movement?"

During the 1980s, the focus was on toxics. The chemical industry was the shining star in

developing new programs to reduce risk. It led the way for all industries. Today, the major resource companies obviously have the most at stake in the sustainable development game plan. For a widget manufacturer, it is relatively easy to change internal recycling and product take-back practices. For mining and petroleum companies, sustainable development cuts to the core of how they do business.

For innovative ideas, I'd look to the petroleum and mining industries -- both of which, ironically, are still considered the Neanderthals of corporate responsibility. You can see evidence of this thinking already within the petroleum industry -- in the form of Shell's leading social responsibility report and BP's position on Global Warming and emission trading. For the mining industry, keep an eye on the [Mining, Minerals and Sustainable Development Project](#) for new innovations. This effort is managed by the respected [International Institute for Environment and Development](#), under contract to the [World Business Council for Sustainable Development](#).

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Q: My company's Environmental, Health and Safety group is thinking about developing an internal organizational learning management system. What are others' experiences with developing such a system?

Steve: The concept of an organizational learning management system is not new to business operations. While working at Exxon several years ago we had our multi-volume "Environmental Design Guidelines" that consolidated, retained and shared the group's environmental equipment design knowledge. Sales and marketing staffs use electronic learning systems every day to keep their entire organization instantly aware of what they have learned about their customers, potential customers and competitors. Even software producers and Web hosting services have "intelligent" troubleshooting software to access solutions that others in the organization learned.

A search of several business Web sites and dozens of recent research reports provided a wealth of information on companies' environmental and sustainability initiatives, along with what individuals learned. I could not find, however, any evidence that indicated what each respective organization or company learned during the process of conducting their initiatives. Moreover, I could not find a commercial environmental management system software package with a useful organizational learning management component.

Clearly, individuals are learning, but all that learning seems to be archived in their respective heads and/or file cabinets. Is the mantra, "If information is power, then if I don't share my information I am more powerful" more entrenched in companies' environmental, health and safety management organizations that previously thought? I hope not.

The only system that I found that contains any substantive element of an organizational learning component is Lockheed Martin's environmental, health and safety Intranet site, ESHWeb (see www.hsewebdepot.org). According to Kevin Dykema, manager of EHS systems at [Lockheed Martin](#), his company has completed much of the work on its knowledge management systems, tools, resources and message boards. "Our next step is to integrate the knowledge management systems with the business units' systems, then focus on a system that shares learning across the entire organization," said Dykema.

[Honeywell International's](#) environmental Intranet Web site includes sections devoted to lessons learned regarding environmental bonds (to fund waste management infrastructure improvements), audits, pollution prevention and eco-efficiency. Thus, what one person has learned in one part of the Honeywell organization, anyone else in the company can access.

A non-profit industry group, [The International Association for Environmental Cooperation, Inc.](#), has announced plans to incorporate a knowledge management and organizational learning system on its Web site for use by its members.

The technology exists for EH&S organizations to become learning organizations. So why don't the tools or systems exist? Is there an insufficient market demand, or size, to warrant

commercial development costs? Do people not have the time to enter, much less retrieve and use, the learning that such a system provides? If they do exist, why isn't information on them more readily obtained? Such systems don't have to be very elaborate. They merely have to have the capability to capture people's learning, then organize and allow users to retrieve that learning in a comprehensive and understandable manner.

If you know of effective EH&S organizational learning management systems, [let me know](#) and I'll pass the information on to other readers at GreenBiz.

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Q: From a strategic standpoint, what are the key techniques for minimizing environmental liability when buying property or a business?

Richard: The two cardinal rules are: (1) perform an adequate due diligence investigation, and (2) negotiate a deal commensurate with the conditions discovered. Sounds like a no-brainer, but this fundamental rule usually is ignored. I have lost track of the number of times my colleagues have relayed horror stories of last-minute investigations of multiple sites scattered around the world requiring a final report in a matter of days.

I think that procrastination on due diligence may be due in part to business management's fears that issues might crop up and squelch their dream deal. Another factor is that some transactions can take on a life and momentum of their own, and there may be enormous egos at work in the really big ones -- indeed, the ones that demand the most careful scrutiny. Superficial or last-minute environmental due diligence can be rationalized because of the need to "fast track" the process while keeping focused on the "significant business issues" (that is, don't sweat what is assumed to be the small stuff).

Here is my list of key strategic steps. You may not need each one:

- Get as much **background information** from the seller as possible.
- Establish a **letter of intent** giving buyer the right to terminate purchase.
- Conduct a thorough **Environmental Assessment**, Phase I or II, depending on the nature of the business and preliminary findings.
- Get **warranties** relative to contamination, permits, and compliance status.
- Identify **emerging issues** that could interfere with future operations.
- Agree on how **remedial actions** will be handled as a condition to the sale.
- **Subdivide property** if necessary so that seller retains the contaminated portion of the property.
- Get **indemnification** against liabilities and third-party claims.
- Recognize that indemnification is only as good as the financial strength of the seller; it may be advisable to **buy insurance** or require that seller insure buyer against future liabilities; have seller set up a trust fund or account to provide a letter of credit.
- **Adjust purchase price** to cover environmental costs such as operational deficiencies, capital items, contamination, liabilities, etc.

The bottom line is that any deal is possible, no matter how badly contaminated a site may be; you just need to factor the issues into the contract.

Dow Chemical proved this by acquiring one of the worst-contaminated complexes in the world, Buna Sow Leuna Olefinverbund (BSL), the former East German chemical industry. The remediation program was carefully laid out at the time of acquisition in 1995. In 2000, Dow won international acclaim for completing the reconstruction program on a deadline established with Germany.

This positive message -- "any deal is possible" -- should be delivered to business management time and again to alleviate fears that EHS issues are deal spoilers. The key is to be on board at the onset of any business transaction.

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Q: Is there anything positive coming out of California's energy crisis?

Steve: While most of the news stories are negative -- rolling blackouts, high costs and bankrupt utility companies -- there are quite a few positives. The incremental increase that existed between the cost to produce conventional electricity and the cost to produce renewable/alternative electricity has all but disappeared. This makes such sources much more economically competitive, and perhaps even less expensive than conventional electricity.

The crisis also is spurring the development and installation of wind- and solar-based electricity generation systems, along with fuel cell and micro-turbine systems. These technologies are being seen as more reliable than conventional electricity sources; stock prices of companies such as [Ballard Power](#) and [FuelCell Energy](#) have skyrocketed recently, despite their products' need for high-priced natural gas. [Capstone Turbine](#), a manufacturer of micro turbines to produce onsite electricity, has indicated a significant increase in sales. AstroEnergy, a manufacturer of solar panels, said it had been experiencing solid growth before the California situation, and this additional growth/demand is difficult for them to accommodate.

Pam Frank, executive director of New Jersey-based Partners for Environmental Quality, Inc., tells me that the situation has benefited the Northeast:

"The topic of reliability and price stability is now more on the minds of consumers in New Jersey," Frank said. "If they can be convinced that the longer-term contracts that are typically associated with suppliers of renewable/alternative sources can moderate or eliminate the risk of interrupted supply, they are more likely to switch to a renewable/alternate electricity supplier."

John Holtz, regional legislative and public relations director for [Green Mountain Energy](#), concurs.

"The situation in California is much less likely to happen here in the Northeast as there is a far greater use of more price stable, long-term supply contracts and less reliance on spot market purchases that prevail in the California market ... there has been an ongoing increase in the power generation capacity in the region: 3K to 8K megawatts of new generation capacity is coming on line later this year," Holtz said.

Perhaps the ultimate positive factor is evident in that Green Mountain Energy tells me that they haven't been hampered in signing up new customers. This suggests that consumer hesitation, if any, is being offset by the stability and improved price-competitiveness that renewable/alternative electricity provides.

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Q: We are organizing a sustainable development committee in our town and would like information on companies that produce sustainable products. Any suggestions?

Steve: You have several excellent resources:

- [GreenBiz.com](#) has excellent news, tools, and reports -- all for free.
- [SustainableBusiness.com](#).
- EPA's [Environmentally Preferable Purchasing Database](#) has just launched; it provides a database of more than 600 products and services, along with more than 300 various environmental standards and indicators.
- I like [In Business magazine](#), available through JG Press. The subscription price is quite reasonable.

- [The LOHAS Journal](#) is a good source of sustainable consumer products and services.
- Advertisements in [E magazine](#) show where consumers can purchase sustainable products.
- Online retailers [Gaiam.com](#) and [Realgoods.com](#) sell a variety of products to consumers looking to create a sustainable lifestyle.

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Got A Question?

Send your question about environmental management issues to Editor@GreenBiz.com.

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

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