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## Ask the Experts

by Steve Rice & Richard MacLean  
February 2002

## Demonstrating Business Value for Fun and Profit

### Also this month:

- [What environmental fallout can we expect from the Enron mess?](#)
- [Isn't Corporate Social Responsibility \(CSR\) redundant? Why not replace it with Corporate Responsibility \(CR\)?](#)
- [What are the essential ingredients of an EHS strategic plan?](#)
- [Got a question? Let us know](#)

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**Q: How can a corporate site remediation group demonstrate the business value it provides its internal customers?** **Steve:** Break the problem into three questions: Ask yourself, To whom do I want to demonstrate value? How do I calculate value? How do I communicate value?

- **To whom do I want to demonstrate value?** Each internal customer group (e.g. "market segment") will have different drivers and definitions of value it appreciates. The department in which the group is located may define value based on monthly personnel costs; the number of projects completed and the associated unallocated overhead costs. The business units may define value as the size of the financial reserve requirement, the speed at which their projects can be completed and ultimate project completion cost. Finally, the company may define value based on the financial

risk and impact on its name or branding by being brought back into the site years or decades after the "final" cleanup. Thus, speak with your internal customers to determine how THEY define and appreciate value; this will help define value measurements one needs to start identifying, calculating and communicating.

- **How do I calculate value?** This involves developing a framework of appropriate project management tools -- defining which projects are most likely to provide the greatest amount of value in terms defined by its customers. Without such tools, the group would have no ability to determine if it is giving the correct priority to the projects they have to work on. To do this, though, the group needs a project prioritization tool that will determine the appropriate priority based on all appropriate factors, developed in concert with its customers so that there is common agreement on the priority process. This eliminates conflict when their projects do not get assigned the priorities that they want them to be given.
- **How do I communicate value?** Again, speak with each internal customer, as each will have different ways in which they understand and appreciate value. Is additional Return on Investment important or reduced per unit manufacturing cost? Is increased net profit after taxes more relevant than additional Contribution Margin or Operating Result? Expressing value in terms of improved EBITAD will have little impact on a business unit primarily interested in releasing excess cash held up in a financial reserve account. If your company or organization uses an Economic Value Added (EVA) approach, this will provide a useful and common expression of value. Be aware that value expressed as "costs saved" or "expenses eliminated" are seldom viable means of communicating value without credible, comparable situational comparisons, which are rare in site remediation projects.

Ultimately, successful efforts to manage value require a definitive plan, useful customer dialogue, the appropriate tools and targeted communications. [Back to Top](#)

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**Q: What environmental fallout can we expect from the Enron mess? Richard:** Lots. The fallout will focus not only on environmental issues within the company, but also the underlying issue of widespread governance failure. The push for environmental reform may come from two sources: First, directors and executives will ask their staffs, Where are we vulnerable? The corrective process has already begun; several energy companies quickly began shoring up their balance sheets. These probes will not, however, be narrowly confined to Enron-type issues. It is to be hoped that boards are staffed by strategic thinkers who will probe far and wide. For example, after Bhopal, boards reviewed vulnerabilities in both chemical risk and community relations. Methyl isocyanate was not the issue. A plethora of internal policies and procedures on risk management resulted. Because the underlying problems were systemic to industry, new laws and industry initiatives such as Responsible Care® also ensued. Boards may raise concerns over EHS governance structures: Are the "independent" auditors also performing consulting services? Should the company who performs attestations of the EHS report also provide consulting services? Why is the EHS governance function part of shared services? Are our EHS governance communication lines unfiltered? Should audits include more than compliance? Second, organizations such as the [Corporate Sunshine Working Group](#) have already raised concerns over EHS information disclosure. The concern intensified

after Professor Cynthia Williams concluded in a 1999 Harvard Law Review article that the SEC has the duty and the authority to demand greater EHS disclosure. The SEC has taken little substantive action; but the pressure may now grow to close loopholes that allow companies to keep certain EHS liabilities off the books. The staggering impact of company bankruptcies due to asbestos litigation may be another impetus for change. Companies have been avoided reporting liabilities by hiding behind narrowly defined regulations (Wall Street Journal, *When Rules Keep Debt Off the Books*, January 18, 2002, page C1). How might this work within EHS practice? Today if you can't define and quantify a liability and estimate its timing, it does not get booked. Wink: we really should not investigate too extensively -- *right*? And nudge: this is so fuzzy; we really cannot quantify or time its impact -- *right*? Prepare for the day that the SEC removes the ability of companies to rationalize EHS liabilities. [Back to Top](#)

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**Q: Isn't Corporate Social Responsibility (CSR) redundant? Why not replace it with Corporate Responsibility (CR)?** **Steve:** We shouldn't replace CSR with CR; these are two different efforts, each requiring a different focus. I see CSR being a subset of CR in that CSR addresses only social issues, such as employee working conditions and wages, local community health and safety, and related issues. Its parallels might be Corporate Environmental Responsibility, Corporate Investor Responsibility, and maybe even Equal Opportunity. On the other hand, CR has many governance facets, including CSR. In fact, the difference between the two is so significant that a new trend is emerging where many of these separate governance issues are being combined as a larger corporate governance matter. Novartis recently merged its environmental, safety, social and other policies into a single [Corporate Citizenship Policy](#). I have also heard that British Telecom may have done this. The next step in this type of evolution may be for companies to create positions with a title such as Vice President, Corporate Citizenship. This recognizes the interrelationship of the various aspects of corporate responsibility. Expect to see more of it in light of the Enron and Andersen corporate behavior scandals that Richard explores in another question this month. One can debate the wisdom of aggregating these separate issues into a single, broader governance issue in that it creates the classic, Which is better: Broader or deeper? organizational conundrum. Does the aggregation reduce the importance of, and focus on, each single one? Will it reduce the level of personal and organizational accountability for any specific issue? The answers remain to be seen; I might like to see an evaluation of these advantages and disadvantages in few years from now when there is sufficient experience with this type of Corporate Citizenship approach. [Back to Top](#)

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**Q: What are the essential ingredients of an EHS strategic plan?** **Richard:** Most of the strategic plans I have reviewed were constructed and executed poorly. They were essentially task lists for incremental improvements, generally focused on maintaining or slightly expanding the EHS function's services while cutting costs. Looking at the bright side, most of these elements are useful, though usually inadequate in EHS planning:

- **Future focus.** Start from a point at least five years out and work backward to the present. Determine where you have to go and then figure how to accomplish it. This process avoids incrementalism. Scenario development is a wonderful technique to use

to develop a forward-looking focus.

- **Get external input.** This input should come from individuals who have their finger on the pulse of the "fringe" elements of emerging issues; the more unconventional the better. If they shake you up and get you out of your traditional way of thinking, they have served you well.
- **Seek executive input.** Get to know your executive management so you can cut through politically correct rhetoric and learn what your leaders are really thinking. This will help you to align your plan and identify critical disconnects and disagreements between the officer and directors that need resolution. A management education program may be necessary to increase awareness of emerging issues so the executives can make informed decisions.
- **Business alignment.** Develop an in-depth understanding of the business vision and core competencies. Map this to the EHS function's core competencies to gain a clear picture of how EHS adds value to the company and why certain EHS strategic action plans are needed. This step will also keep the plan at a strategic level, instead of a tactical level.
- **Metrics matter.** Include one or two metrics that track the actual implementation of the strategic plan -- and then track them!
- **Use a proven process.** The strategic planning process can be used to gain buy-in and understanding. The strategic plan is a cognitive process used to implement change, which cannot be obtained in a meeting or two. The depth at which you undertake each element will determine the robustness of your plan.

[Back to Top](#)

**Got A Question?** Send your question about environmental management issues to [Experts@GreenBiz.com](mailto:Experts@GreenBiz.com) We can't guarantee that we'll answer every question, but we'll try.

----- [Steve Rice](#) is the founder and president of [Environmental Opportunities, Inc.](#), a strategic environmental management advisory firm and has worked for both Exxon and BASF in a variety of environmental management positions. [Richard MacLean](#) is president of [Competitive Environment Inc.](#), a management consulting firm in Scottsdale, Arizona. He also serves as the Director of the [Center for Environmental Innovation, Inc.](#) and has held executive level health, safety and environmental positions in several Fortune 500 companies.

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