Columns

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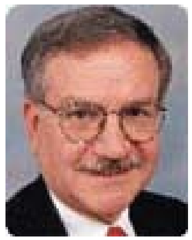

Ask the Experts

by Steve Rice & Richard MacLean
July 2002

Achieving Environmental Leadership

Also this month:

- Assessing Leadership Competencies: What to Look for When Hiring
- What Grade Does EPA's Administrator, Christie Whitman, Get?
- Can Companies Make a Profit with Recycled Content Products?
- The Pro's and Con's of Environmental and Social Investment Indices
- **Got a question? Let us know**

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What are the most important elements needed for a company to achieve environmental leadership?

Richard: The company needs either a major disaster or an extraordinary, visionary CEO. Seriously. I have thought long and hard to come up with a list of the companies that have approached this elusive goal that did not first either go through one or more gut-wrenching screw-ups or have a visionary executive at the top, usually the CEO. The closest I could come was 3M for their pollution prevention program, and some may argue that this was less about environmental excellence and more about a centralized management philosophy of waste reduction designed to save money.

Many of my colleagues in industry management owe their positions to major problems that they were called in to straighten out. I was hired into one such company after the EPA levied a record breaking fine. These “burning platforms” provided the resources and the management access to do what most companies have no interest in pursuing. Royal Dutch Shell had Brent Spar. Today, they receive accolades from NGOs for their stakeholder outreach. Union Carbide had Bhopal and for the decade that followed, they were the company to use for auditing practices benchmarking. The list goes on and on.

I believe that most corporations that have gone through a truly traumatic experience institute systems that become a part of the company’s ingrained systems and polices, if not its cultural fabric. This is not always the case when the CEO takes a leadership position. For example, Maurice Strong led Ontario Power as a champion for sustainable development. The programs were abandoned as soon as he left the company.

Regardless of the motivating force behind a leap forward, the fact remains that these companies define the path for others to follow. The McDonald’s partnership with Environmental Defense set the stage for NGO/company relationships. Dow set the model for international environmental due diligence with the acquisition and reconstruction of BSL, the former East German chemical industry giant. A burning platform is not, however, a guarantee of forward progress. General Electric has its Hudson River but, if anything, the company seems more entrenched than ever in legal positioning rather than proactive programs. Much depends on executive management’s personal views of the environment and their responsibility to society, not just shareholders and employees.

Back to Top

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How can I accurately assess the skills of the new personnel that I will be interviewing for our recently restructured EH&S organization?

Steve: Based on our discussion of the question, I’m aware that you are less concerned about the technical and specialists positions whose skills and experience are easier to document, discuss and evaluate. While the following response will also apply to them, it is mainly targeted for those mid-level and executive-level personnel involved in leadership, management and business unit coordination roles.

One of the best models that I’ve seen comes from, quixotically, the U.S. government – at least in theory and structure, as I am not personally familiar with how they actually use and apply it. The “Guide to Senior Executive Service Qualifications” establishes five Executive Core Qualifications, with several key leadership competencies associated with each one. These five ECQs are:

- Leading Change,
- Leading People,
- Results Driven,
- Business Acumen and
- Building Coalitions/Communication.

Personnel seeking executive-level positions must provide a written response to each ECQ qualification in terms of the challenges that they have faced, their context, actions taken and results achieved, while also addressing each qualification's respective leadership competencies.

Even though this process and skill sets are used as part of the employee application and review process in government agencies like EPA, they are perfectly applicable for business situations.

The Guide can be found at the Office of Personnel Management's web site, http://www.opm.gov/ses/handbook.html. It provides a detailed explanation of the system's structure and process, along with detailed definitions of each ECQ and key leadership competencies.

Back to Top

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What grade would you give the EPA's Administrator, Christie Whitman?

Richard: For leadership, D+; for following orders from the boss, A-; for protecting the environment, C-; and for playing the Washington political game, B+.

Last year, I was a strong supporter of Christie Whitman. In an article appearing in Environmental Protection magazine in June 2001, I stated that "someone with the talent and political skills to be elected governor is not going to plod along, as Carol Browner, Clinton's EPA Administrator . . . did in the 1990s." The administrator read my article and I even received a letter back from her office. I was psyched for the great things that would now be accomplished by the EPA.

In the article, I pointed out the key ingredient for success: " I think that the true test will be in how well Christie Whitman is able to lead a stuck and demoralized organization forward. It is not whether she fails to get the details right (yes, the ozone hole has nothing to do with global warming), but whether she can inspire the Agency to do things that remained elusive for the past eight years."

How wrong I was. "Plodding along" could be the perfect description of the EPA today. To be fair, 9/11 has altered the country's priorities. The economy and corporate scandals have not helped either. On the other hand, environmental activists have held back criticism for nearly a year. This EPA holiday will not last much longer. I was surprised by a June 2002 editorial in Pollution Engineering magazine in which the editor lambastes the EPA, stating "the EPA is no better that those it is trying to enforce." Strong words.

From my own personal experience, I have spent the past seven months trying to get someone in authority at EPA to make a decision on a non-regulatory, non-legal issue that, to my possibly naive view, should take a few seconds. Robert Townsend, author of the 1970 classic, *Up the Organization*, states it this way: "The common or garden variety decision – like when to have a cafeteria open for lunch or what brand of pencil to buy – should be made fast." Maybe that about sums it up. We have a massive bureaucracy without leadership - just another politician at the helm.

Back to Top

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Can companies make a profit selling products with recycled content?

Steve: As the adage goes, "It ain't easy being green". My best advice to a company looking to produce and sell a product with recycled content is not to focus on how 'green' the product is. Focus on the product's benefits to the customer, which may include attributes like performance, cost and image. If the benefit is allowing the institutional and/or retail customers to live their values, that too is important. Despite the results shown in many of the public opinion surveys, merely being 'green' is not important.

I asked Jacquie Ottman, possibly the world's premier expert on the topic, who replied, "Yes! There are many highly profitable products on the market that use recycled content. Examples include the Scotchbrite Never Rust "wool" soap pad made from preconsumer recycled plastic and Crane's "Denim Blues" and "Old Money" lines of paper made from scraps of blue jean manufacturing and U.S. currency, respectively. Both of these products offer benefits beyond just the recycled content – in the case of the soap pad, it is that it doesn't rust like conventional steel wool and in the case of the stationery, it is the papers' unique aesthetic."

"On the other hand", she adds, "while Wellman's EcoSpun fiber, made from 100% recycled soda bottles, has found a limited market among manufacturers like Patagonia and Nike that target green consumers, it is a premium priced product that offers no perceptible benefits to consumers besides a "do good/feel good value."

Virtually every cereal box made in the U.S. today is made of at least 50%, and often 100% recycled cardboard. When I last checked, the automotive industry could not get enough engineered nylon plastic with recycled content for inner panel and air intake manifolds. In a capitalistic economy, these products would not be surviving in the marketplace if they were not profitable.

Personally, I use International Paper's line of Great White paper (30% recycled content) for my business printing/copying and 3M's transparency films (50% recycled content) for presentations. As with the cereal boxes and nylon automotive parts, these office products have been sold commercially for several years. One can reasonably assume that the products are profitable to the companies that make them.

Back to Top

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What are the advantages and disadvantages of the various environmental and social investment indices?

Steve: Environmental and social investment indices are based on the premise that companies that have above-average environmental and/or social performance will deliver above-average financial performance. This, in turn and on average, will provide investors with slightly higher investment returns at slightly lower investment risk. Since the initial success and publicity of investment indices like Innovest's EcoValue21 and Dow Jones/SAM Sustainability indices, a myriad of other groups and fund managers have created similar benchmarks.

One advantage is that they have shown a correlation between environmental/social performance and financial performance. The corresponding disadvantage is that no definitive causation has ever been established. Hence, most index providers have since softened their claims that their results provide "a useful indicator for finding investment opportunities", or similar wording.

Opponents of these indices argue, with some reasonable justification, that if there is a correlation why do so many companies with no significant environmental and/or social performance have above-average financial performance, too? As I've noted in past columns, above-average environmental and/or social performance is one of many indicators of above-average company management, which produces above-average financial performance. As with any investment decision, no single number, ratio or factor is a useful indicator; many parameters must be evaluated.

Other advantages include their development and use of proprietary methodologies, and that they are backed and operated by members of the investment community.

These two advantages, however, also have their corresponding disadvantages. Because their methodologies are proprietary, there is little or no peer-review for appropriateness and there is no comprehensive understanding of the factors and weighting that go into producing the results. Also, in this era of highly-suspect financial governance and conflicts of interest, if they are operated by the investment community, can they be trusted?

Other disadvantages include the near-impossibility to determine current performance as a) many indices stopped publishing performance comparisons a year or two ago once, I suspect, the data no longer demonstrated their performance premise and b) those that are published often compare 'apples and bananas' by comparing their index's performance against either benchmarks of contrasting investment style and market capitalization size, or their own internal benchmark indices that provide no recognizable reference.

A brief research study I conducted a few months ago revealed weak data screening and low-level, low-paid data collectors with little or no experience. We also found that the indices' credibility is being undermined by the end users' interest, or ability, to pay for the collection of accurate data and production of thorough assessments of that data. One of the leading data collecting firms, I was told, is even looking to outsource that function in response to cost pressure from its clients.

The May 13th issue of Business Week magazine, pages 116-118, provides a good, pragmatic summary of the hopes and hypes of environmentally/socially responsible investing. The Green Money Journal provides regular, in-depth articles and references on socially responsible investing, although through a decidedly one-sided perspective.

Back to Top

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Followup Note: Regarding last month's item on options for investing in public companies that generate wind-based electricity, a few people have commented on the omission of TXU Energy in Texas. While TXU is one of the largest purchasers and resellers of wind-generated electricity for resale into the electricity market, they are not a producer. Their recent press release, either purposely or inadvertently, underplayed the fact that they only purchase wind-based electricity for resale. Also, like its counterparts mentioned last month, one can not invest in only TXU's wind energy component; investors must also invest in their hydroelectric and nuclear energy generation, pipeline transmission and communications systems.

In addition, we neglected to refer to Northern Alternative Energy (Minneapolis, MN), one of the largest producers of wind energy and a part of Navitas Energy, Inc. As with the other producers, this company is privately held and not available for public investment.

Finally, the May/June 2002 issue of In Business magazine has a special, albeit understandably biased, section on the status of wind energy generation and its developers.
Back to Top

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Got A Question?

Send your question about environmental management issues to 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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