Columns

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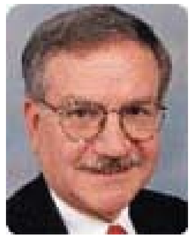

Ask the Experts

by Steve Rice & Richard MacLean
July 2003

Adding Business Value to EH&S Organizations (Part II)

Also this month:

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Tips for increasing an EH&S company's business value (Part II)

How can EH&S organizations and professionals add business value to their companies? (Part II)

Steve: Continuing from last month's column, integrating and aligning your organization's focus and activities with your company and business units' objectives may be the 'holy grail' these days as your group, like so many other central or facility support groups, struggles to retain budgets and personnel while trying desperately to maintain expertise. To develop the personnel and operational structure necessary to deliver 'value-added' services, EH&S organizations must be 'dancing on their toes'. This is tough to do, however, when most are spending much of their time 'reeling on their heels'.

That said, creating an EH&S organization that is capable of adding sustained business value is often a 3-step process:

1. **Professional Development.** EH&S professionals must be able to understand the company and its businesses, products/services, markets, competitors and strategic/tactical objectives. This is all about 'knowing your customers' and being able to communicate with them on THEIR terms. Opportunities for success are remote unless the EH&S staff has a working knowledge of common business topics such as Theory X and Theory Y, Altman Z Score, market "bubble" charts, Quick Ratio, and which of their company's business units are trying to achieve higher margins and which are trying to achieve higher market share. EH&S staff must also read the trade journals and magazines that their business unit personnel read, not just EH&S-related publications.
2. **Strategic Business Planning.** The EH&S group must have a strategic business integration plan where it assesses its core competencies and conducts Market Leader and Product Leader assessments to determine its position within its internal 'marketplace'. Tasks should also include conducting preliminary needs assessments with key opportunity business units and developing a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis. The final steps are to a) align the group's activities, personnel and skills to accomplish the strategic plan, b) develop performance targets, c) develop and implement services and d) monitor progress toward the performance targets.
3. **Opportunity Identification.** Conduct facilitated brainstorming sessions with a cross-section of each targeted business unit to identify potential project opportunities, prioritize, assign responsibilities and establish schedules. Such sessions will work best if they are facilitated by independent and knowledgeable third party personnel who do not have a stake in the specific outcomes. This step occurs somewhat concurrently with Step 2c.

The overall effort needs to focus on:

- Identifying opportunities to add business value;
- Creating value in ways that your business units and staff define and appreciate value; and
- Communicating that value so that they, and others, will understand you and support your organization, staff and programs.

Success breeds credibility, which breeds further success!

Next Month: Part III - Specific examples and why the best case studies are never published!

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How favorably do environmental regulatory bodies, such as the EPA, view facilities with a documented environmental management system?

Richard: : " Very positively," states Jim Horne, program manager with the EPA's Office of Wastewater Management. Jim represented the agency in the early Technical Advisory Group (TAG) discussions on ISO 14000 and has been instrumental in promoting the voluntary use of EMS. The clearest example of the agency's views on EMS was provided by the position statement issued by the Administrator last May.

William D'Alessandro, executive editor of International Environmental Systems Update, a leading resource on strategic corporate environmental management issues, concurs and goes on to state, "National regulatory agencies around the world view environmental management systems very favorably and try to encourage their use."

From a regulatory standpoint, there are very specific tangible benefits. Federal prosecutors, for example, promote the use of an EMS as a form of injunctive relief in settlements with companies that lack a methodical approach to their regulatory requirements. State agencies will negotiate favorable conditions in permits, including monitoring and reporting concessions, to companies with an EMS. Having an EMS is a threshold requirement for companies wishing to participate in the National Environmental Performance Track.

However, a number of studies have found that an EMS accomplishes only what companies use them to do and that can vary markedly, depending on the company and the facility. So, the EPA and the states often push for additional requirements to ensure that companies realize the benefits that are important to the regulatory community, such as more public transparency and environmental performance beyond legal requirements.

Aside from the regulatory dimensions, the more fundamental issue is the need for a systematic way to run the environmental aspects of a business. Would business management be satisfied with production, finance, sales and marketing operated without a plan, a strategy, or a system? Obviously not, yet the "system" that exists at far too many facilities is day-to-day crisis fighting, with an exclusive focus on regulatory requirements.

EHS professionals try to "sell" an EMS to business management in the same manner that the finance group would justify a new accounting software system. An EMS is viewed as something new, and thus not needed in today's cost cutting mindset. In fact, all sites have some sort of a system in place, even though it may be very limited. EHS professionals should be positioning an EMS as a method of streamlining the current system, not something entirely new.

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How many different companies make photovoltaic panels and which one is the most efficient?

Steve: I've asked a few people that I know in the solar energy industry and they tell me that there are literally thousands of photovoltaic (PV) panel producers in the world. None of my contacts has a comprehensive list.

Also, efficiencies are improving by leaps and bounds, so the data that I have from a project last year is probably not sufficiently current for your purposes. In general, the efficiency of the panel may be influenced more by its location and incidence to the sun; that is why units that move to track the sun's path and maximize solar incidence will be the most efficient. Improvements to individual PV cell efficiencies are being announced virtually every week by someone, somewhere around the world.

If any readers have a source and reference to a comprehensive list of panels and PV cell efficiency ratings, please let us know. We'll share it with the other readers next month.

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With so many private companies implementing environmental management systems, why have few federal regulatory agencies, such as the EPA, done the same?

Richard: A good deal of the impetus to implement formal environmental management systems (EMS) has been driven by corporate marketing pressures and public relations. Ford, for example, has instituted an EMS as a requirement for suppliers. Companies wanting to do business in Japan or Europe have recognized the benefits of ISO 14000 certification. Many of the companies issuing EHS and social responsibility reports promote their metrics that track the number of facilities that are ISO-certified.

Federal and state government agencies do not have such pressures. Some might argue that it is also government's slowness to act – bureaucracy in inaction, as it were. Clearly, this is not the EPA's intent, as demonstrated by the specific language in the Administrator's position statement and the EPA's EMS Policy for its own facilities.

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Is there any list available of major companies that use renewable energy?

Steve: I don't know of any, nor do the people that I asked. As above, if any readers know of one, just let us know and we'll let the other readers know about it in next month's issue.

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Which sectors have made the most and least progress on social responsibility and sustainable development?

Richard: It is too early to label any particular sector as having achieved significant progress. Specific companies have demonstrated sensitivity to these issues and, as a consequence, have developed cutting edge programs that serve as role models for others. Shell, British Petroleum, and Nike immediately come to mind. There are also the "butterflies," as John Elkington calls them; the companies that are inspirational, but do not carry a lot of weight in the marketplace (such as Ben & Jerry's, The Body Shop, and Interface).

The sectors that have historically received significant public and governmental criticism tend to be more sensitive to these issues. Thus, the mining, chemical, energy, and transportation sectors, at least on the surface, pay greater attention and produce some of the best social responsibility reports. Disclosure is no substitute for aggressive action and results, but greater transparency demonstrates, at a minimum, that management is tracking the issues.

The sector that I find the most fascinating is the food industry. Few companies within this sector issue social responsibility reports. Research by KPMG in 1999 and the University of Sunderland in 2002 found that this sector lagged behind most. The United Nations Environmental Program (UNEP) and SustainAbility, in their 2002 report, *Trust Us*, stated "Even the most advanced food producers, shippers and retailers are still at an embryonic stage in their reporting, let alone developing and deploying truly sustainable business models." This is amazing in view of the fact that this sector is faced with issues such as:

1. Animal welfare	2. Intensive farming	3. Mad-cow disease
4. Genetically modified foods	5. Ethical trade / Malnutrition	6. Organics movement
7. SARS (jumping the species barriers)	8. Food poisoning, product recalls	9. Agricultural runoff
10. Fertilizers	11. Animal waste	12. Decreasing crop diversity
13. Food safety (terrorist threat)	14. Pesticides	15. Food additives
16. Antibiotic overuse	17. Obesity	18. Loss of topsoil
19. Lowering groundwater levels / Freshwater supplies	20. Trace metals (e.g., Lead in chocolate, Mercury in tuna)	21. Habitat loss / clear cutting for crop production
22. Diminishing fish populations	23. Soil salinity buildup	24. Resource consumption: Grain vs. meat

The food sector is in the center of a brewing storm of issues yet, from my observations and direct talks with EHS professionals inside the industry, business executives seem either unconcerned or distracted by other issues. How long this lack of a focused response will last is anyone's guess, but the sector is ripe for change. Nestlé and General Mills appear to be making headway and may set the path for others to follow.

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FedEx and UPS are both improving their fleet efficiencies, but which is really the greenest express delivery company?

Steve: I've been reading reports on these two companies' efforts for almost ten years. Their efforts include alternate energy vehicle fleets, high-efficiency jet engines, package recycling programs and envelopes/boxes with recycled content.

Overall I would say that while there efforts are only are slightly different, a quick review of both the FedEx and UPS Web sites gives UPS a slight edge although both sites' content is a bit thin. UPS's environmental page is also easy to find; the route to FedEx's page is well hidden. But then, that might be merely because FedEx has a more 'inward' and competitive advantage-oriented environmental focus while UPS has a more 'outward' and public relations-oriented focus. Neither one is 'right' or 'wrong,' nor 'good' or 'bad' -- just different.

This near-equivalency touches on one of the major problems with companies trying to be 'green'. Many have found that any distinction or competitive advantage quickly evaporates because there is such a low barrier to entry that a competitor can readily duplicate the effort while avoiding all the development costs and risk. On the other hand, if there is a significant competitive advantage, then why tell your competitors about it? This is the same situation that presented itself in the heyday of waste minimization and pollution prevention – what I termed at the time, 'P3: The Pollution Prevention Paradox'.

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What is the best and least expensive way to get a comprehensive overview of U.S. environmental laws and regulations?

Steve: 'Best and least expensive' is a tough combination. Nevertheless, here are several options to consider:

1. Read "Practical Guide to Environmental Management" (9th Edition, January, 2003) by Frank B. Friedman. It can be obtained from the Environmental Law Institute Web site. The book is not a legal primer, but does relate the history of environmental law and regulations and deals with legal trends and issues in relation to management issues. You may also want to get the "Environmental Law Handbook" (17th edition), available from the Government Institutes Web site. They also offer a variety of self-study courses and web-based training.

2. Attend an industry or trade association course, usually offered several times a year by groups such as AWMA, AIChE, ASME, WEF and others. Courses are typically presented in conjunction with their annual and regional conferences, though are

becoming more available as online or self-study courses. Offerings by such organizations are usually inexpensive and should give you a generic primer and overview on environmental law.

3. Attend a public training course offered by any of the hundreds of EH&S training firms. Check your local phone book, The Environmental Network or The Environmental Yellow Pages for a provider near you.

4. Find a local environmental lawyer and invite him or her out to lunch for a briefing on the profession and other training sources in your area.

Of course, you may wish to consider a fifth option and do all of the above.

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What is the 'bottom line' on socially responsible investing?

Steve: As readers of this column know, I am both a fan and a critic of socially responsible investing (SRI). I'm a fan because SRI provides a way for us to live our values through our investment choices while earning a return that is comparable to traditional investment strategies. I'm a critic because of both a) the pervasive one-sidedness of the articles, books and news releases that present SRI as the cure to most of the world's problems and b), in my opinion, the misleading investment category designations used by several SRI funds' marketing campaigns.

The bottom line, even in this time of ongoing economic difficulties, is that SRI funds continue to provide returns that are comparable to traditional funds in their peer categories, provided you can accurately determine their peer categories. While I've stated this before based on my own evaluations, Dutch researchers have recently supported this conclusion. They reported in a paper, "International Evidence on Ethical Mutual Fund Performance and Investment Style", that while they found no significant difference between SRI and traditional funds, SRI funds have slightly less investment risk.

The key advantage is that while obtaining comparable returns, SRI investors also get to live their values, reduce investment risk, and support social, sustainable and environmental shareholder resolutions. It's sort of like 'buy one, get three free'.

LOHAS Journal, The Progressive Investor newsletter and The GreenMoney Journal are good sources for current developments on the topic. I especially like LOHAS' more balanced view of SRI investing by featuring articles on both the promise and the difficulties of companies involved in the healthy lifestyles and sustainability marketplace. We often learn as much, or more, by what is not working well as we do by what is.

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Postscripts: Balance in the Universe. We reported back in May that *Tomorrow* magazine was on the ropes. It turns out that the blow was fatal. Shortly after that they announced that they could not find a buyer and the company entered into receivership.

Fortunately, the universe remains balanced due to the tremendous amount of new, excellent work that I've seen lately in the areas of EH&S risk identification and management, performance measurement and productivity enhancement. Much of this work is still 'below the radar' and deals with the creation of integrated performance 'dashboards' and the extension of Six Sigma to EH&S management. This may be an emerging era of 'fourth generation' EH&S management which, in maybe two to four years, will reset the benchmarks of EH&S performance -- and business results!

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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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