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Ask the Experts

by Steve Rice & Richard MacLean

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Credit for ExxonMobil's Experiment

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Q: Who is on the cutting edge of corporate social responsibility?

Steve: ExxonMobil, a company that typically isn't recognized by others for its corporate social responsibility efforts, is developing an oil field in Chad that includes a pipeline through Cameroon. The parties agreed that ExxonMobil's exploration and development royalty payments would be used to benefit the country's people and develop its communities, not enrich the current governments or escalate political turmoil. The World Bank helped steer this delicate and noble experiment, and monitored payments to ensure that the social objectives were met. According to Tom Cirigliano of ExxonMobil's media relations unit, 70% of payments are meant to go toward health, education, infrastructure and agriculture, 10% are meant for savings for future generations and 5% are meant for the communities in the oil field development area.

Recently, however, both Chevron and Petronas made participation payments to become part of the project. According to a recent report, monitoring revealed that this payment was used to purchase weapons and related material. In response, the World Bank delayed further payments until Chad revised its oversight procedures. A new oversight committee has been formed and all expenditures using royalty payments must now be approved by Chad's legislature.

The well pumps are scheduled to begin operating in 2003, so it will be some time before ExxonMobil, the World Bank and others know if this experiment will pay off. Initial signs are encouraging. Give both ExxonMobil and Chad kudos for attempting an innovative and cooperative approach to corporate social responsibility.

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Q: Which environmental policies and programs best boost the bottom line?

Steve: Our January 2001 column provided an update on this issue, and linked to a few recently completed studies. Essentially, I've seen little in the past few months to change my opinion that research and case studies have proven more a correlation of the linkage than a firm causation.

The bottom line: above-average environmental policies and programs appear to be more of a *result* of a company's above-average business management strategy than the *cause* of above-average financial performance.

This seems also to extend to sustainability. A recent SustainAbility report, Uncovering the Business Case for Corporate Sustainability, concluded that the only areas where data demonstrate a business case for sustainability initiatives are brand value and reputation.

Curiously, the Dow Jones Sustainability Group Indexes show that when compared to all companies in the Dow Jones Global Index, since December 1998 the companies that lead their industries in sustainability have yielded lower returns at an increased investment risk (Tomorrow magazine, March-April 2001; p 38.). A study by the University of Sussex concluded that initiatives such as ISO14000 provided no significant financial gain to the companies that had undertaken them.

Nevertheless, we must be careful neither to underestimate nor undervalue such efforts. The data show that positive environmental policies and procedures do not produce negative financial performance. Plus, the intangible benefits of employee morale, "mission-oriented" commitment, and community relations can be significant.

Moreover, firms such as Innovest Strategic Value Advisors' EcoVALUE21 indexes and the Dow Jones Sustainability Group Indexes provide valuable indications that above-average environmental management can indicate above-average business management, hence an increased probability for above-average financial performance and improved investment risk.

Frequently, that's good enough -- often only an indicator is needed. After all, many analytical and medical tests do not measure the intended parameter deirectly; they measure only indicators of the desired parameter.

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Q: What's the 'Net got to offer EH&S professionals beyond providing information?

Richard: The Internet and e-mail have revolutionized the consulting world. I find it difficult to imagine how Steve and I could do what we do today using only snail-mail, fax and the telephone. The teams that we assemble exchange documents and key material daily from offices around the country. Another colleague is teaching a university course with students who log in from around the world and interact real-time!

Clearly the Internet is terrific information tool, but what could that mean beyond the obvious stuff? Yes, EH&S professionals can be more informed and make better decisions. And yes, individuals can search for and obtain EH&S services and products cheaper, better, and quicker. This is the underlying principle of Business to Business. But what about profound uses?

"Just providing information" may not seem like much, but the impact that this information can have is nothing short of remarkable. Maybe that is why the first step dictators and despots take is to control information. After all, the First Amendment to the Constitution is about freedom of speech. Americans often take this freedom for granted; it is wise to recognize that

the Internet's greatest impact could be within developing nations, especially those with limited access to external sources of information. The technology exists, and costs are plummeting.

I predict that the Internet will become an essential tool in making the public aware of key issues at local, regional, national and global levels. The current work on EH&S performance indicators may someday be transformed into access to indicators that really matter to citizens and governments who are deciding key issues (such as which companies are granted permits and what products are the safest). For example, Environmental Defense already has a site that reveals major emitters by ZIP code. Imagine this information, only a thousand times more comprehensive and with the capability of being benchmarked to known standards of performance.

The danger is that the information highway may become so cluttered that the good, the inaccurate, and the deceitful information all seem to blend together. That would be information overload at its worst. I do not think that this will destroy the Internet as a tool, but it may require the creation of "trusted sites" with independently verified information.

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Q: The Bush administration included renewable biomass fuels in its energy policy. What are the latest developments of biomass as a sustainable alternative to petroleum-based fuels?

Steve: The use of biomass materials as an intentional fuel source under the banner of sustainability is hypocrisy at best and lunacy at worst. True, few would argue that biomass materials such as vegetative waste and wood scraps are renewable and may be sustainable. These resources can be re-grown and harvested many times over, replacing that which was previously used. But with all the speeches and efforts to *reduce* the use of carbon-based fuels as a means of reducing CO2 greenhouse gas emissions, why would anyone want to produce and/or burn materials that have such high carbon intensities? The carbon that is sequestered by the plants gets released into the atmosphere as CO2. Moreover, biomass materials typically have a high inorganic component that when burned for energy is reduced to ash, which could be reused, but more often is landfilled.

Efforts and resources might be better placed in developing biomass into soil enhancers and as replacement raw materials for products such as paper, particleboard, and other composite products.

There might be two exceptions where the use of biomass as an energy source might make reasonable sense: byproducts (e.g. not intentionally produced) wood scraps from wood processing facilities to generate onsite steam and/or electricity, and high-efficiency wood-burning stoves where other fuels are not readily available.

I can think of no situation where it makes sense to intentionally grow biomass for the sole purpose of burning it to produce energy. Now, if someone could just develop a beneficial, economical use for kudzu …

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Q: In light of environmental justice and sustainable development objectives, why don't more government agencies add up total contaminated areas (e.g., landfills, waste storage areas, contaminated underground aquifers, Superfund sites, etc.) per county or city? This can then be translated into a "per capita" value for comparison.

Richard: I think it would be fascinating if there were a national metric for land area "wasted." Maybe some regions already do this, but in general, I would think that there would be political pressure not to release these figures. First, it would be technically difficult to determine precisely. For example, 1,000 acres contaminated with diesel oil is not the same as 1,000

acres contaminated with dioxin. As soon as you get into relative weight factors the controversy and confusion increases exponentially. Second, people do not want their community to be viewed as a bad place to live. Property values may suffer. Imagine the reaction of the chamber of commerce of Anywhere, USA, if they score in the bottom ranks.

That said, you are on the right track. Full disclosure -- transparent metrics -- is the cornerstone of progress toward environmental justice and sustainable development. While it may be a political hot potato, especially at a local level, the environmental community may view this as just what it needs to help raise awareness. Environmental Defense online offers its Scorecard/Pollution Locator on potential sources of land contamination. The EPA, of course, offers several sites that disclose Superfund information.

The Environmental Defense site is relatively user friendly and depends on published government sources. I believe that the average citizen would find difficult to interpret much of the information that I have seen. We are a long way from your suggestion, but maybe someday we'll have more relevant and comparable information.

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Q: Can you provide a critical appraisal of environmental cost accounting?

Steve: Lots of people are interested in this. Both Dick and I want to weigh in:

Generally, environmental cost accounting can be applied to products, operations, programs, and organizational structures. Tools include Full Cost Accounting, Total Cost Assessment, Activity-Based Costing, Life Cycle Assessment, Design for Environment, Economic Value-Added and Eco-Efficiency.

Primary advantages of these tools are that they:

- require a commitment and participation by a variety of departments, not just Environmental, Health & Safety;
- provide a more complete and accurate picture of the costs and benefits of a product, project, facility or organization, and;
- allow costs to be managed and assigned more appropriately, and benefits to be assigned and communicated more accurately.

It follows that better cost-benefit information and management produce better business decisions.

Primary disadvantages include:

- implementation may necessitate changes in company and/or accepted accounting practices;
- initiatives may require significant outlays of time and resources to determine if there will even be worthwhile results, much less ones that the market will permit to be implemented;
- evaluations often are constricted by access to accurate information, and
- results may be undermined by a lack of credibility if not managed effectively.

Fortunately, these disadvantages are slowly being overcome as organizations learn how to modify their efforts to match their specific company culture and processes.

Perhaps the greatest effect and immediate benefits may come from company environmental management departments that seek to manage their costs less from a perspective of *who*is providing the service and more from a perspective of *what* service is being provided to *which* facility, business or other staff unit. This begins the evolution of shifting their organization from being perceived as merely another evil "other overhead" line item to being perceived as a customer-oriented, value-added participant in their business and operating units' business value chain. We have developed a new workshop and seminar on this topic.

Richard: Environmental cost accounting has not yet taken off, at least to the degree that many had hoped in the 1980s, because of two problems. First, most environmental costs are

just too insignificant, relative to all the big-ticket issues that a company's management tracks. As far as business executives are concerned, these details just do not matter if they require either added accounting effort or significant modifications to the accounting systems.

Line items, such as major remediation projects, are already tracked. Major environmental costs, such as capital equipment and operating costs for pollution control facilities, are tracked as required process expenses. It can be difficult to convince management that splitting these out further will reduce costs instead of just adding to the accounting bureaucracy. You can snag yourself in a Catch-22: limited hard data to prove it's of value, so no approval to build the process to get the needed data.

Second, no one has come up with convincing, hard data to estimate hidden costs such as long-term liabilities and social costs. The EPA probably is in the best position to do this, however both the government and companies are reluctant to deal with such politically sensitive issues.

Companies routinely using some of the tools Steve listed (e.g., Life Cycle Assessment, Design for Environment) are, however, much more familiar with the longer-term, "big picture" issues.

Although the costs may not be quantifiable, the process frames these issues in a way that can be more easily communicated to management. The hard data may not exist but the strategic significance can be apparent. These tools also can help identify which cost metrics to track.

The bottom line is: (1) don't worry about the small stuff; (2) track the big, strategic stuff, even if you can not precisely quantify it; and (3) educate executive business management on the competitive significance of this information.

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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.

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