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Ask the Experts

by Steve Rice & Richard MacLean
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The Upside and the Downside of Corporate Reporting

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What are the costs and disadvantages to a company providing environmental reports?

Richard: There are thousands of companies that produce formal environmental reports. We sometimes overlook the fact, however, that this represents only a small percentage of all corporations. In other words, the costs and disadvantages appear to outweigh the benefits gained. The companies that do report are rapidly moving to broad-based reporting on health, safety, environmental and social responsibility. In many respects, this gives an insight into one

of the primary motivations for voluntary reporting – public relations.

SustainAbility, in conjunction with the United Nations Environment Programme, has produced some of the best material on reporting trends and advantages/ disadvantages. The 1998 “Non-Reporting Report” contains a good summary on why companies choose to report or not report. The 1999 “Social Reporting Report” and the 2000 “The Global Reports” are rich in information on reporting. Most of the material published, including the work by SustainAbility, has been very upbeat and positive on reporting. You asked about the downside.

The UK Department of Environment, Food and Rural Affairs recently sponsored a survey by Environ on the cost of reporting. The results were surprising to many: $124,000 at the low end to $1,310,000 at the high end, if you consider the range of costs from strategy formation to final production. I think that these costs are on the low side if one also includes building the internal infrastructure needed to gather key metrics.

Reporting may be expensive, but the greatest hurdle may be the legal issues. CEOs take the advice of attorneys very seriously. By their very training and nature – right to the DNA level – attorneys hate to disclose information for fear that some public statement, commitment, goal, etc. will come back some day to haunt the company. Their killer question is “why do we have to do this?” It’s a tough question to answer if your main arguments revolve around difficult-to-quantify benefits such as “community good will.” Professor David Case of the Vanderbilt Center for Environmental Management Studies has described these legal difficulties in an Environmental Law Reporter article.

From my perspective, the entire point is lost. Companies should be building the infrastructure to gather key performance indicators to better manage and strategically position the company. Public relations and external reporting should be secondary considerations; today they are often the primary goals for reporters. External disclosure could, in fact, be very inexpensive if internet-based reporting was done on selective indicators and the PR could be kept to a minimum.

Why don’t environmental management standards like EMAS, ISO14001 and now RC-14001 include more performance requirements?

Steve: This has been, and continues to be, the Achilles heel of all environmental management standards. As we have noted previously in this column, these standards set minimum requirements for organizations’ management processes, not their performance. One of the best, short, discussions of the pros and cons of this approach, “A Pain in the ISO”, appeared in the July-August 2000 issue of Tomorrow magazine.

There are two reasons why these standards do not set performance requirements. First, it would set levels of performance that would have to be met, and that might box organizations and their leaders, many of whom are involved in developing the standards or funding the organizations that sponsor and administer them, into corners that they do not want to be in.

If performance is prescribed by the standard, the performance requirement might or might not

be fair and represent improvements, depending on the nature of the company, facilities and operations. If performance is set by the subject organization or facility, the basis for the performance may change (e.g. increased or decreased activity, degree of upstream or downstream process integration, one-time events, etc.) so the performance data would have to be reported with more footnotes than data. As happens frequently with the TRI data, most third-party assessment reports on the data would concentrate on just the numbers, not the bases for them. Thus, the effort may evolve into a numbers and data management game more than a serious effort to improve performance.

Second, it sets a legal expectation. As noted in the recent article on RC-14001 (the chemical industry's new incarnation of its Responsible Care program) in the April 17th edition of Chemical Week magazine, such commitments to company performance could be applied as a legal requirement. If the company, despite good intentions and strong efforts, did not achieve the promised performance it could be sued. Companies would have to include a disclaimer or the obligatory "forward looking" statement, like they do with financial performance projections, to every document. I can imagine that the issue could even be extended to having to include a discussion in companies' U.S. companies' Security and Exchange Commission (SEC) 10-K or 10-Q reports as it could materially impact financial performance.

That's not to say that there is not a movement to add some performance nuances to the standards. As reported in the March 2002 issue of the Business and The Environment newsletter, this month's meeting of Subcommittee 1 (SC1) of ISO's Technical Committee on Environmental Management (TC207) will discuss revisions that could incorporate a few performance-related changes to ISO14001.

Stay tuned…

With the recent uptick in the economy, has there been any turnaround in environmental technology investment ?

Steve: Not according to the latest PriceWaterhouseCoopers' MoneyTree(sm) Survey Report on venture capital (VC) investing. In fact, following a slight rebound in all venture investing in the fourth quarter of 2001, investment in the first quarter of 2002 fell 24%. According to this ongoing survey, the number of companies receiving funding dropped from 994 to 787 during the most recent quarter. A quick scan of the survey revealed that while investments were placed with a children's haircutting business and an 'instant' travel opportunity provider, there was not a single VC investment in environmental technology last quarter.

According to the survey, "All leading industry categories experienced declines. The perennial leader, software, attracted $1.1 billion, followed by networking ($899 million), biotechnology ($752 million) and telecommunications ($722 million)." While it is possible that an 'environmental' technology might be included as in the software and biotechnology categories, I could not detect it from the sampling that I reviewed.

That said, there is still hope. As stated in the survey's highlights, "Despite the downturn, venture capitalists have not abandoned early stage ventures. Early stage companies attracted

19 percent of the total dollars invested, and comprised 26 percent of deals compared to 16 percent and 23 percent, respectively, in the fourth quarter of 2001." Northern Power Systems received $10 million in private and equity funding in April, 2001.

There will always be money, and interested investors, for businesses that a) meet a substantive need, b) have a good business plan, c) include an experienced business management team with proven track records, d) have substantial owner equity at risk and e) have a realistic expectation of becoming sufficiently profitable. This last aspect is not to be underestimated. Investors will expect that the company can eventually be sold for a price that rewards them for the risk they are taking. You will also often be expected to give up at least a portion, and probably the major portion, of the management control of the company.

I was recently transferred from manufacturing to be in charge of EHS for the company. Since I am not an expert on EHS, what first steps should I take to get up to speed?

Richard: You have already taken the first key step: ask lots of questions. I would not be concerned about not being an EHS expert. Some of the very best corporate EHS managers that I have known have come from manufacturing. They all shared three essential traits: they were very intelligent people who led good people and had communication skills. You can get up to speed quickly on the technical issues through reading, workshops, industry associations, conferences, and peer networks. If you need immediate assistance and expertise is not available in-house, consultants can provide it.

Just like newly elected presidents, you have approximately a six-month "grace period" with executive management. Of all the advice I can provide, here is the most critical: take maximum advantage of this goodwill window. Three essential things must happen if you are to have long-term success.

First, get a very accurate assessment of all current and potential future issues. If problems are uncovered a year down the road, they are YOUR problems. The mistake that most newly promoted EHS managers make is to assume that a competent job was done in the past in laying out the issues. Generally, this is true, but a mistake on this front can be career wrecking. Perform an independent governance review using internal and one or two very senior experienced experts. This review should not be limited to compliance and should include all past, present and future strategic issues.

Second, perform a detailed review of the existing staff. If there are "bad apples", now is the time to quickly deal with them. The most critical issue is not competency, but how these individuals work as a team and how they interface with other departments. If there are dysfunctional people in the group, deal with it now or you will pay dearly for your indecisiveness in the future as these people undermine what you are trying to accomplish.

Third, establish strong communications channels with executive management and ideally, establish a mentor relationship with one of the key officers. These relationships, built on trust, take months if not years to establish, and if critical issues arise in the future, your career may be dependent on the sturdiness of these relationships.

Are there any public companies providing wind energy that I can support financially ?

Steve: By “support financially” I presume you mean “invest in”. This is certainly one way for individuals to invest according to their values other than in retail environmentally or socially responsible mutual funds. Since the market is still emerging, most companies in the wind energy business sector are private, hence not available for public investment.

If you are interested in investing in companies that generate wind-based electricity, the only companies that I know that are both public and generate wind-based electricity are Entergy Corporation (NYSE: ETR), FPL Group, Inc. (the former Florida Power and Light; NYSE: FPL) and PacificCorp’s Pacific Power subsidiary (a unit of Scottish Power; NYSE: SPI),. These companies, however, are not “pure” wind energy players. Their wind energy businesses are small parts of larger group companies that have many other energy and utility operating units that may affect your investment decision. Conversely, while companies such as Green Mountain Energy are more “pure” alternate energy generators and developers, they are not public companies. If you want to financially support Green Mountain Energy, you can either purchase your electricity from them or invest in BP, which owns a significant portion (around 40% I believe) of the company.

Another often overlooked option is to invest in companies that do not generate wind energy, yet participate in the value chain as key suppliers. The investment situation, however, is much the same – you would need to invest in the larger, overall companies as there is no process by which you can invest in just their wind energy business units. For example, a big player is GE, a supplier of lightweight, high-strength plastics. The company recently purchased Enron Wind, the wind energy component of Enron, and now also supplies turbines that transform the wind energy into electricity. Another example is ExxonMobil, a company not typically associated with wind energy, which participates in this market sector by supplying a large majority of the lubricating oils used in wind turbines.

My colleagues Joel Makower and Peter Asmus suggest that you check out the website of the American Wind Energy Association for additional information. You can also search on “wind” on both the Greenbiz.com and Clean Edge web sites.

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