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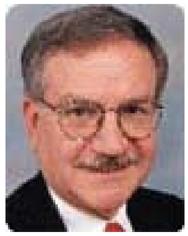

Ask the Experts

by Steve Rice & Richard MacLean
March 2001

Making the Leap: Putting EH&S to Work in Your Units

Also this month:

- Environmental Strategies: What Do the Big Boys Do?
- The Premise -- and Profitability -- of Socially Responsible Investing
- Movin' On Up: Back to School for Greener Work?
- **Got a question? Let us know**

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Q: How do I begin integrating environmental, health and safety into my company's business units and operations?

Steve: This is a significant and complex undertaking. Here's an outline to success:

Step one: Set your strategy.

- **First, develop a strategy** for aligning your activities with their strategic business goals and create a plan for systematically managing the organization to achieve those goals. For example, at the next executive management briefing, do not emphasize compliance or emission statistics -- instead, open a discussion on business their strategies and objectives.

- **Then, get their support** for implementation of your strategy at the business unit and operational levels in a manner that is seamless with their core business processes.

- **Finally, develop and track measures of performance** to provide your organization, and them, with feedback on how effective you are in achieving your strategy. This will help you develop an impact vs. cost chart that provides guidance toward focusing on the high impact/low cost activities and eliminating or outsourcing the low impact/high cost ones!

Step two: Align your organization, activities, and costs with the business units' organization, activities, and costs.

- Inventory your organization's current functions.

- Inventory all the products and services that those functions provide and determine their respective costs.

- Finally, identify which business units and operations use (or could use) which products and services.

This establishes a three-dimensional grid of provider, service/cost and customers that allows the organization to identify gaps and overlaps (e.g. market research and product development), ensure appropriate staffing/skills (e.g. raw material selection, production planning and capital investment) and allocate costs appropriately (e.g. product pricing and management).

Suddenly, your organization looks and begins operating like a business unit! Ensure, though, that everyone in the EH&S staff is properly trained in basic business finance concepts and operational practices, or the plan won't work.

One golden rule learned from years of experience: Never fall into the trap of being held captive to providing EH&S services to a fixed internal customer base if your customer base has the freedom to select external EH&S suppliers. If your internal customers have the choice to go outside the company for the EH&S services which your organization provides, then your organization must have the ability to provide high-value, low effort services outside the company -- even perhaps to your business units' customers as a part of a "value-added" product support service. Otherwise, your organization will be left with all the high-cost, low-value work that the external providers don't want.

Keep in mind that few central or functional groups, such as human resources, training, purchasing and logistics, have integrated into their business units and operations unless they have become fully decentralized and physically merged into those units and operations. The downside of this strategy, of course, is the loss of synergy and economies of scale that a central staff group provides. Either strategy can work; just don't expect to have the best of both worlds -- it seldom happens.

Of course, as both Dick and I have said, all this is much easier said than done. With careful planning, the right training, focused implementation and patience, it can happen.

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Q: What is the most common environmental strategy large corporations employ?

Richard: It depends who you believe. If you ask environmental managers, you may surmise that the answer is Environmental Excellence, Sustainable Development, Minimum Harm to the Environment, or some similar nice-sounding phrase. But what do these expressions really mean in business terms? Not very much.

One of the problems with environmental management today is that strategy, policy, vision, and value statements get intermingled. It is truly rare that company environmental vision statements present what they should: a clear compelling image of the desired future state that helps employees understand the future direction and achievement of the organization's purpose. They usually wind up as value statements sounding a lot like "We believe in Mother Nature and cute furry animals."

Similarly, strategy statements get intertwined with public policy positions that are meaningless to employees. Even worse, these politically correct statements may in actuality be diametrically opposed to the true business strategy expressed by business executives. Business-minded expressions of desired strategy are usually clear, blunt and unambiguous. Thus, while the declared strategy may be "environmental excellence," the CEO is heard in private to say, "We do not want any compliance screw-ups!" When all is said and done, this is the strategy that will drive budgeting and capture the attention of individuals.

Companies may package their strategies using a wide variety of statements, but when you cut through all the verbiage, generally there are only a few basic environmental strategies. This is similar to the business world where, for example, Michael Porter, professor at Harvard Business School, defines just three generic strategies: Overall Cost Leadership, Differentiation, and Focus.

In my work with corporations I have found six:

1. **Minimum cost.** Use resources for high-value business opportunities.

2. **Compliance focus.** Do the minimum required in what is considered a low-value-added area.

3. **Risk-averse.** Protect shareholder assets.

4. **Brand protection.** Protect/enhance product branding.

5. **License protection.** Ensure continued operation and ability to develop new sites.

6. **Fully integrated.** Achieve long-term competitive advantage.

Companies generally do not deploy one "pure" strategy, but rather a combination of one dominant strategy plus one or two others. Thus, a company may be risk-averse and have a particular focus on compliance as well. Another might have a minimum cost strategy, but also be interested in protecting its brand name or ability to maintain permits.

Minnesota Mining and Manufacturing is a good example of the latter through its well-known Pollution Prevention Pays program. 3M achieved a low-cost strategy that also reaped rewards in brand name protection and favorable regulatory reviews.

In addition, there is what I call the "Opportunistic" or "Do what appears right at the moment" non-strategy. It is all too often what many companies do. Sustainable development might be the stated policy (what I call "fully integrated") but the marching orders from management might change from year to year, depending on the CEO, what the competition is claiming, budget pressures, or the recent environmental track record. Companies recognize that they cannot change their business strategy from year to year or chaos will ensue; yet some feel perfectly comfortable doing this on issues requiring even longer-term focus.

So what works best most often? A clearly defined and consistent strategy -- one not couched in politically correct terminology. The public relations people can spin their magic, but all employees need to understand the central theme of what they are doing and why this approach is being used. The worst-case scenario is an avowed strategy of sustainable development but an actual strategy of minimum cost.

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Q: January's Ask The Experts included an inquiry about the longevity of corporate social responsibility. What about the premise -- and profitability -- of socially responsible investing?

Steve: Much like in collecting stamps or sports cards, the primary reason for investing in socially and environmentally responsible funds should be because it makes you feel better about how you spend (or invest) your money. Despite claims of above-average financial performance, deeper economic evaluations reveal that such funds as a whole provide comparable, or almost comparable, returns though individual funds' returns vary widely.

In general, such funds establish certain "screens" to eliminate investment in companies with specified product, service or behavior characteristics -- such as weapons, tobacco, garment sweatshops and/or environmental practices. Most articles and advertisements compare these funds' returns with broad market indices such as the Dow Jones Industrial Average or the S&P 500 and promote how their funds provide investors with returns well above these averages.

This presents a misleading picture. First, such funds need to be compared with other funds and indices that represent a comparable investment strategy and risk, not the broad averages. For example, a fund with a small cap growth strategy and risk needs to be compared with other small cap growth funds, not the S&P 500. The same goes for a socially or environmentally responsible fund with a more conservative large cap value strategy and risk.

Second, because many funds' screens result in investments that are heavy in the cleaner "tech" and "telecommunications" sectors, they have provided returns well above the broad-based averages for the past several years. Like other funds concentrating in these sectors, however, many socially and environmentally responsible funds have crashed the past several months. For example, the new Calvert Social Index has plummeted almost 19% in the past nine months.

Socially and environmentally responsible funds provide a welcome, and growing, presence in the marketplace and offer investors an opportunity to live their values through their investments. Just keep in mind that that, by itself, is no guarantee of above-average financial performance. An excellent overview of socially responsible funds' activity during 2000 is presented in Morningstar's "2000 Update: How Do Socially Responsible Funds Stack Up?"

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Q: I have an entry-level job with a pharmaceutical company and am brainstorming my options for a career in the environmental area. I have a bachelor of science in chemical engineering and recently took the professional engineer exam. I'm deciding between graduate studies in management and a law degree or both. What do you recommend?

Richard: It was really smart of you to go for the PE now while the technical stuff is still fresh. That was one of my big mistakes -- not getting the PE when I got out of school back in 1969. While I'm wiser by leaps and bounds today (don't laugh), I forgot all the technical stuff decades ago.

I don't recommend a masters in management. At one time an MBA was thought to be the prodigious ingredient that propelled an individual's career forward, but no longer. Notwithstanding the prestigious Harvard MBA, real-world experience is generally more valuable and what really counts in today's employment market.

My recommendation for a winning strategy is the combination of a new law degree plus the technical background you already have, along with accumulating experience in industry.

If you stay on the technical side, generally you do not make as much money. If your technical niche is in demand you may do well, but with ever-evolving technologies, you have to be nimble and keep abreast of the times or find yourself out of work. If you want to be "in charge," make more money, but have a very volatile, less secure job, go for management. You may have to change jobs a number of times, as the higher you go in management, the more you are subject to the whims of organizational changes. But if you are self confident and really talented, this should not be a problem.

One universal constant in the war to get and retain a good job is to always be on the lookout for the next job. You never know from day to day what will happen -- and there is no such thing as job security.

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Got A Question?

Send your question about environmental management issues to Editor@GreenBiz.com.

We can't guarantee that we'll answer every question, but we'll try.

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