



## News Center

- News
- Features
- Columns
- Affiliates

SEND US YOUR NEWS

FREE NEWS FOR YOUR SITE



Resource Wizard



Search for:

## Columns



[Printer-friendly version](#) | [Email this document](#)



## Ask the Experts

by Steve Rice & Richard MacLean  
March 2002

### Cost of an EMS

#### Also this month:

- [What should corporate directors know about their EH&S status?](#)
- [How is the current EH&S job market?](#)
- [What's the difference between environmental audits, due diligence, and governance?](#)
- [How much money are companies losing by not engaging external stakeholders in their strategic planning and product design?](#)
- [Got a question? Let us know](#)

\* \* \* \* \*

#### Q: What is the cost of an environmental management system?

**Steve:** The absolute cost of an environmental management system (EMS) can vary widely, so benchmarking costs may not provide meaningful information for your specific effort; there are far too many variables.

For example, the organization's maturity and culture are significant factors: Is there a complete absence of a system, does the current system need a significant makeover, or does

the current system merely need to be redirected? Does the scope of the EMS need to be for merely a few facilities, all facilities, or the entire organization? Also, is the intention of the EMS to set expectations and procedures, or objectives and indicators of actual performance? Finally, does the EMS require external assistance and certification, and if so, how much? All of these are not inconsequential to the cost of EMS implementation.

Art Gillen of [First Environment, Inc.](#) suggests that a first step might be to conduct a preliminary gap analysis of the standard or standards that your organization is looking to achieve. He indicates that this type of review costs about \$5,000. Total costs for a small organization or facility to implement an EMS might be on the order of \$100k, including internal labor, overhead and external costs. "Large, complex organizations, however," he tells me, "have spent millions in their design and implementation efforts."

Once these variables are taken into consideration, your benchmarks should be normalized. Effective benchmarking might include metrics such as cost per facility, cost per professional, cost per employee, and cost per unit of company sales. For example, Dale Sands of Earth Tech has indicated ranges, on a per facility basis, of \$40k - \$300k for implementation, \$10k - \$20k for certification, \$20k - \$100k in recurring costs and \$4k - \$10k for surveillance audits. At these prices, one can see how current research indicates little or no economic benefit of implementing an EMS. For one of the best compilation of opinions on the cost/benefit of ISO14000 (just one of many EMS frameworks), "A Pain in the ISO", see the July/August 2000 issue of [Tomorrow](#) magazine.

Be careful, though, to ensure equivalence with the benchmarks you are comparing your costs against. Otherwise, it is very easy to get into an "apples and gorillas" situation that results in confusion at best and misinformed, hence inaccurate and expensive, decisions at worst.

You might also want to check out other EMS sources, such as the [Multi State Working Group](#) and the [National Database on Environmental Management Systems](#).

[Back to Top](#)

\* \* \* \* \*

**Q: With all the attention on governance lately, what do you think corporate directors need to know about their EHS status?**

**Richard:** I have been flooded with questions from clients who are concerned about upcoming board presentations (see the question on audits and governance below). My recommendation is that even if your management has not raised the question, be prepared to raise it yourself. You should be prepared to answer the following:

1. Are there any truly major problems that could impact shareholder value?
2. Is there anything that could impact the company's reputation in a significant way?

3. Do we have the right organization in place, staffed with the right people, and reporting at the right level?
4. Is the corporate/group/site EH&S organization adding value to the company?
  - o What are the strategic, competitive advantages that can be gained through the EH&S organization's activities?
  - o Are there any strategic issues that could seriously hurt the company?
5. Is the company doing the right things well? (the classic 4 box model)
6. How does the company stack up against its competitors?
  - o Is the competition gaining competitive advantage through their EH&S activities?
  - o Can we?
  - o Do we have comparable tools and programs?
7. What will it cost (how much can we save) to implement recommended changes? What will the return on these investments be?
8. Are we getting unfiltered, accurate information?
9. Is there sufficient accountability and control?
10. Is there anything out there that could create difficulties for me (i.e., the office, director or executive) personally (e.g., lack of required due diligence)?

If you believe that the preceding questions would only arise in the narrow context of the company's regulatory compliance and community relations status, you may have an added responsibility to educate your management on emerging issues. Command-and-control regulations and public relations have dominated EH&S efforts over the past thirty years, but in the future governance will require the added dimension of sustainable development, measured by a new set of performance indices.

The EH&S audit and due diligence practices (especially as they relate to business transactions) have been systematized and perfected to a very high standard. Governance as it relates to emerging sustainable development issues is a much tougher exercise.

[Back to Top](#)

\* \* \* \* \*

#### **Q: How is the current EH&S job market?**

**Steve:** Mixed is about the best rating that I can give it at this time, which reflects an improvement over the past year or two.

The supply of experienced EH&S personnel continues to grow due to the contraction of U.S.

manufacturing for 15 out of the past 16 months, combined with the “downsizing” effects of corporate reorganizations and mergers. One person I know has had only one interview in the past two months and two others have decided to leave the profession. Two friends have retired and their positions are not being filled, or they are being filled with other internal staff, whose positions are not being filled.

On the other hand, demand for professionals is just starting to increase. I know of one company that just hired four mid-level managers and two others that are interviewing candidates for lower level positions. I don’t know of any organizations that are actively seeking to fill senior positions, however.

What might be interesting to watch, though, is the impact of the emerging trend for large companies to split into several smaller companies. If the synergies of merging companies led to the new employment math of  $1+1 = 1$ , then will the dynamics of splitting those merged companies result in the need to recreate those eliminated EH&S positions?

One would think or at least hope so, though our recent experience suggests that it is not happening. For example, when some of the larger chemical firms spun off their non-core businesses to equity finance partnerships, mid-level and senior EH&S positions were not reinstated. If the responsibilities were reinstated, they were returned to the legal, engineering, or human resource departments -- the organizational model of the 1970s. Still, this experience might be a reflection that the businesses were acquired by short-term, financially driven equity finance partnerships that needed to reduce rapidly the debt load associated with acquiring the business.

While I do not have any hard statistics that private equity investment ownership leads to decreased EH&S performance, recent personal experience suggests it. Through our [Competitive Business Intelligence](#) service, we have seen circumstances in which individual facilities owned by equity partnerships that eliminated experienced (e.g. higher cost) EH&S personnel are receiving a near-deluge of agency notices regarding missed quarterly emission monitoring reports, expired air permits and, in one case, even forgetting to renew its RCRA hazardous waste storage permit before it lapsed.

If the analogy to the 1970s is even close to being accurate, then a sharp rise in the demand for experienced EH&S professionals may be just around the corner.

[Back to Top](#)

\* \* \* \* \*

**What is the difference between environmental audits, due diligence, and governance?  
Are they one and the same?**

**Richard:** No, they are not the same. Audits are an essential component of governance, however governance refers to the much broader responsibilities of a corporation and its executives and directors. Similarly, audits can be a major component of due diligence and due

diligence is a component of governance.

The definition of audits is the “systematic review process to determine whether all or selective levels of the organization are in compliance with laws, regulatory requirements, and standards.” Some definitions expand this to include internal policies and best management practices; however, much of the focus is on specific, well defined requirements that lend themselves to detailed, check-list type reviews.

Governance focuses on assurance that the company's policies and systems are being implemented according to the instructions of the directors and business executives. While audits are often outsourced, governance should never be completely outsourced. In addition, governance should be budgeted through an overhead account and not controlled or viewed as an option by the business units.

For example, the push for shared services and outsourcing over the past six years created heartburn for many EH&S managers when the governance function was treated as just another EH&S service. EH&S auditors in some companies have been literally told to go away when they showed up at uncooperative manufacturing facilities.

Due diligence generally refers to specific steps that a corporation should take when faced with a potential issue or liability. The classic example is the requirement for a systematic review of new business acquisitions or divestments for hidden liabilities. The primary component in such a review is a phase-one investigation, which, in turn, may trigger additional investigations.

When the issues are straightforward and simple, checklist-type audits can serve the function of proper due diligence and governance. If, however, the issues are complex, audits do not suffice. “Adult supervision” may be required to get at the real issues. Clearly in the case of Enron, there was a lot of auditing going on, but very little governance and due diligence. That is the key point. If your company has a good environmental audit system, it could in actuality be failing in terms of governance. If you ensure that your management understands these distinctions, you will be performing a governance function!

[Back to Top](#)

\* \* \* \* \*

**Q: How much money are companies losing by not engaging external stakeholders in their strategic planning and product design?**

**Steve:** There is no credible answer to your question; there are far too many subjective assumptions that would have to be made to quantify the impact of the multitude of potential events not happening. The best one could do is a scenario-planning exercise for either a single business and product, or for a single issue across a single industry sector.

Also, this question presumes that companies are not currently engaging stakeholders in their strategic planning and product design, and this is simply not true. It is happening, with more

regularity and intention than we have seen in the past few years. What is sometimes not realized by many groups and individuals is that the stakeholders that are important to any specific company and issue are often a more limited, focused set than the broad, all-encompassing set that many non-governmental (NGO) or activist organizations envision.

For example, a producer of a retail product line that we worked with determined that its stakeholder group consisted of the current and potential buyers of its products, its employees, and its investors. Thus, they conducted focus groups and market research for input from the first group, an employee survey for the second group, and investor/analyst meetings for the third. In this case, it is not that the company did not engage its stakeholders, it is just that it did not consider certain groups as being sufficiently important stakeholders to their particular issues and processes.

In another case, a producer of chemical intermediates to other industrial and commercial businesses defined its stakeholder groups as its current and potential customers, its employees, and its local community. As before, the business met with its customers to find out what products and services they needed. It also held employee orientation meetings to provide information and obtain feedback, and held periodic community open-houses and hosted community projects to solidify its communication with residents in the locales surrounding their facilities.

Finally, I think it is dangerous to have the narrow view that stakeholder engagement is a one-way process - only from companies to external groups. That both limits the potential for innovative opportunities and probably ends up costing those groups money for not engaging THEIR stakeholders in their strategic planning process.

[Back to Top](#)

## Got A Question?

Send your question about environmental management issues to [Experts@GreenBiz.com](mailto: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.*

[More Columns...](#)



[Printer-friendly version](#)



[E-mail this page](#)

---

## Feedback

- [Comment on this Column](#)
- 
- 

[News Center](#) | [Business Toolbox](#) | [GreenBiz JobLink](#) | [Reference Desk](#)  
[About Us](#) | [Support Us](#) | [Sponsors](#) | [Contact Us](#) | [Site Credits](#) | [Advisory Board](#) | [News Affiliates](#)  
[Site Map](#) | [Search](#)



Copyright © Green Business Network. All Rights Reserved. | [Privacy Policy](#) | [Disclaimer](#)