Columns

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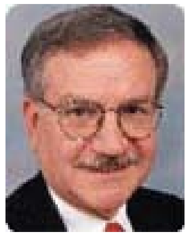

Ask the Experts

by Steve Rice & Richard MacLean
May 2001

Bean Counters, Green Counters

Also this month:

- What's the best way to merge two EH&S organizations?
- How can my company maximize its enviro performance?
- What does a slowing U.S. economy mean for the environmental consulting and services market?
- **Got a question? Let us know**

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Q: I haven't heard much about environmental management accounting for a few years. What is happening in this field?

Steve: I see a renewed interest in environmental management accounting. EH&S organizations are still struggling to forge deeper ties with their business units to add value or merely survive. To do this, however, many are just now becoming aware that their credibility depends on three things:

Communicate in a way that the business units will understand; add value in such a way that business units define value; and obtain business units' understanding of, and support for, the EH&S organization, staff, and programs.

This means EH&S professionals must quantify their results, and communicate them in dollars. Be specific: a project to reduce the environmental footprint of a process or product "increases the product's contribution margin by $1.25 per unit and improves net operating result after taxes by $150,000."

The trend is in using environmental management accounting concepts and tools as means to align EH&S organizations, processes, and programs more closely with their business units.

Signs of the times: A workshop, Finance For Non-Financial EH&S Professionals, was developed and conducted at the recent GEMI2001 conference. GEMI also recently issued a report, New Paths to Business Value: Strategic Sourcing, that contains good information on the topic. Moreover, Tarcisio Alvarez-Rivero of the United Nations Division for Sustainable Development tells me that his branch recently completed an effort to develop three workbooks on governmental accounting hurdles and opportunities. Kristin Pierre, manager of EPA's Environmental Accounting Project, tells me that EPA has completed a project that reports on case studies of environmental management accounting at three diverse companies. The results are published in their report, Enhancing Supply Chain Performance with Environmental Cost Information.

Looking ahead, environmental management accounting will overcome entrenched accounting practices, the frequent need to keep a third or fourth "set of books," and the significant amount of resources and time needed to explore the possibility of significant financial returns. It'll just take time, organizational persistence, and individuals' resourcefulness.

Back to Top

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Q: Our company is merging with another large international corporation. What advice do you have for managing the merger of our respective EH&S organizations?

Steve: This is becoming an increasingly important issue for today's corporate EH&S organizations. I discussed this issue with the head of a recently merged EH&S organization that has been undergoing the process for the past two years. He shared several key lessons learned about the importance of aligning his organization's objectives, developed in partnership with the company's business units, with its strategies and tactics.

The most important element to this organization's success was merging both organizational *cultures* as quickly and thoroughly as possible. The success of everything else depends on this, my contact said.

Be careful: A cultural change cannot occur in a vacuum. It must be accomplished in tandem with a devoted, corporate-wide effort to develop a new, post-merger company culture. As a person involved with the original formation of Saturn, the automotive company, once told me, it is far, far easier to create a company culture than it is to change one.

I suppose this holds true for EH&S organizations, too.

Back to Top

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Q: What techniques are available to maximize environmental performance within my company?

Richard: There are many techniques to assess and improve performance. Which method or methods you use will depend on your definition of "performance." Just as beauty is in the eye of the beholder, so too can environmental performance mean different things to stakeholders. That also goes for "value" and "excellence."

Excellent environmental performance according to a CEO, a CFO, or the board of directors may mean full compliance or consistent annual progress toward compliance at minimum cost; to an EHS manager, it may mean full implementation of state of the art programs and pollution prevention systems; to the marketing department or the public relations department it may mean unique activities or accomplishments that set the company apart from competitors; to external stakeholders it may mean low-waste generation and emission releases, or significant annual progress toward zero discharges. In essence, each stakeholder may say it wants "improved environmental performance," and have different priorities.

For example, an environmental manager may report with pride that her team has implemented an award-winning environmental management system, only to be asked by an angry business executive, "What was the value in spending company resources on this new system?" In the face of widely publicized spills and non-compliances by ISO 14000-certified companies such as Eternal Chemical Company, Taiwan; Petrobras, Brazil; and Ebara Corporation, Japan, it's not hard to see why there'd be resistance to investing in an EMS. But if this executive is: (1) focused only on compliance at lowest cost; and (2) has heard that an EMS does not guarentee compliance, the environmental manager may be in for some rocky times.

To a business executive, an award-winning EMS may appear to be a waste of resources, or at best a necessary bureaucratic hurdle to achieving ISO 14000 certification for market penetration. It is no wonder that management's acceptance of ISO 14000 can revolve around gaining certification and not be concerned with improving "performance," whatever that is. Indeed, ISO 14000 is a conformance model -- not a performance model. A conformance model focuses on whether the organization is conforming to the requirements of a particular standard such as ISO. It tells you what to do, not how to do it. By contrast, a performance model focuses on how the organization performs.

Before a company can improve environmental performance, value, or excellence, it must first set the Key Performance Indicators (KPIs) that define these terms in precise, measurable terms. It is much more involved than the commonly used tabulation of notices of violation, emissions, and wastes. These few, relatively simple measurements of end results do not express fully the nature of the environmental performance that is needed to achieve business goals.

Robert Kaplan and David Norton drove home to executives and financial analysts the need to examine a more comprehensive set of performance indicators through articles in the Harvard Business Review and in their book, The Balanced Scorecard: Translating Strategy into Action. Kaplan and Norton write that organizations can manage end results more effectively with a balance of measures in four categories: financial, customer, internal processes, and learning/growth. Once developed, a balanced scorecard becomes an instrument for aligning organizational performance with strategy.

More recently, Richard Chang and Mark Morgan published a book entitled Performance Scorecards. These authors do not restrict their scorecard to four categories, but rather allow an organization's management team to define their optimum number of categories and label them to fit the organization's current and future strategies.

These authors recognize that to obtain profits or other desired results, one cannot focus exclusively on a few financial indicators. In effect, there are precursors to successful results and an overall model can be useful to structure a framework for tying together the most relevant performance indicators. Performance drives results, not the other way around. The scorecard helps measure the pulse of performance items, not necessarily the end results.

There have been some attempts to develop various EHS models using this scorecard approach (such as Scott Johnson in an article appearing in the Spring 1998 issue of Corporate Environmental Strategy). ISO 14000 might be considered a good framework, but again, it is conformance-based.

I collaborated with Bob Pojasek on a modification of the Baldrige model, the business tool for measuring business excellence, to define, assess, track and improve EHS performance. Bob originally was involved with the New Mexico Environmental Department to adapt the Malcolm Baldridge National Quality Award for its annual excellence award, Green Zia Environmental Excellence Program.

We took what we learned from this experience and modified the model to more fully recognize the differences among stakeholders in defining the EHS performance goals required to obtain the desired business results. In Baldrige, the first six categories of the model are performance-related items that drive the results (the last category). Most EHS managers focus only on environmental end results – say, lower emissions or fewer non-compliances. However, the most important goals may be to improve performance and not to simply achieve results. The results will come if you do the right things.

There are subtle, important distinctions in explaining to business management how environmental programs add value. For example, business managers recognize that behavior-based safety programs, those based on safe behavior observations as a performance indicator, yield superior end results -- say, fewer injuries yielding higher productivity and lower worker compensation claims. Unless business executives understand these connections, they likely won't see the value of your programs.

Back to Top

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Q: How is the slowing U.S. economy affecting the environmental consulting and services market?

Steve: Despite my intuition that there might also be a slowdown in the environmental consulting and services market, I hear from several contacts that workload is increasing, or at least holding even, in nearly all segments. The exceptions might be ISO14000, remediation, and brownfields development, where some say these segments are falling off; others say they are holding steady.

People also tell me that they are seeing big growth in the “back to basics” services such as air emission permitting, scheduled compliance reporting, and training -- activities that MUST be done. One contact tells me that this trend seems to be driven by companies and sites having fewer, less-experienced EH&S professionals to carry out these tasks; the tasks are being contracted out to specialty consultants and service providers.

This assessment is supported by one of my recent research projects, which found that many companies and sites are receiving notices of violation for a) not submitting routine emission monitoring reports and b) not renewing environmental operating permits. We found that these omissions resulted from a variety of root causes, the most common being:

- the job positions responsible for preparing and submitting the reports had been eliminated so there was no one to perform the required action;
- the job positions were filled with less-experienced personnel who had not received sufficient training in their expected job tasks; and
- additional workloads put on existing personnel displaced daily priorities for as long as possible.

Missing permit renewal applications and not submitting emission-monitoring reports are problems that companies supposedly fixed years ago. As Dick mentioned, however, an environmental management system is of little use if new employees, or employees in new positions, are unfamiliar with the management system, or focus more on conformance to the system rather than on achieving the desired performance results.

I sense that the environmental information management software market also is a growth area. All but three of the exhibitors at the recent GEMI2001 conference were environmental information management systems or software providers.

Back to Top

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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