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Ask the Experts

by Steve Rice & Richard MacLean
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Global Compacts ... Commodity Services ... Interns ...

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.

Q: What is the U.N. Global Compact and how does it differ from the Global Sullivan Principles of Corporate Social Responsibility?

SR: In January 1999, at the World Economic Forum (Davos), U.N. Secretary-General Kofi Annan challenged world business leaders to "embrace and enact" the U.N. Global Compact, both in individual corporate practices and through supporting appropriate public policies. Nine principles cover human rights, labor and the environment:

1. Support and respect the **protection of international human rights** within (companies') sphere of influence.
2. Make sure their own corporations are **not complicit** in human rights abuses.
3. Uphold the **freedom of association** and the effective recognition of the right to collective bargaining.
4. Uphold the **elimination of forced and compulsory** labor.
5. Uphold the **effective abolition** of child labor.
6. Uphold the **elimination of discrimination** in respect of employment and occupation.
7. Support a **precautionary approach** to environmental challenges.
8. Undertake initiatives to **promote greater responsibility** on the environment.
9. Encourage the **development and diffusion** of environmentally friendly technologies.

To date, almost 50 companies and nongovernmental organizations have committed themselves to these principles. These include Daimler-Chrysler, Ericsson, Nike, Novartis, and

the World Business Council for Sustainable Development.

In July 2000, Novartis prepared and published its corporate statement of commitment. Jim Thomas, Novartis Corporation's executive director of health, safety and environment, told me, "We are using this as the focus of our efforts toward global social responsibility. We will sit down with civil society on common issues and discuss how to address them."

Thomas also said Novartis is developing a list of specific actions, with schedules and responsibilities, to advance theoretical commitment to substantive activity and accomplishment.

The U.N. Global Compact complements the Global Sullivan Principles in that it covers human rights, labor and the environment. The Global Sullivan Principles focus more on social responsibility. In addition, the United Nations advocates the U.N. Global Compact, specifically incorporating a commitment to transform principles into business management policies and practices.

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Q: How do you calculate the impact of environmental, health and safety performance on shareholder value?

RM: Researchers such as Linda Descano, Peter Soyka, Sanly Feldmen, Matthew Kirman, and Glen Dowell have tried to tackle this tough problem. Some of the best material that I have seen recently has come out of the Center of Economics and Business Administration at the University of Basel, and the Bank Sarasin & Co., Basel. [Editor's note -- The World Business Council for Sustainable Development has more on this.]

This is an emerging area and as yet no one has come up with the magic formula that works and is popular. For now it is "fuzzy math," and anecdotal case studies may have as much impact on your management as any seemingly precise calculation.

For the strongest example of good environmental performance serving to protect shareholder value, we can turn to Minnesota Mining and Manufacturing Company (3M). This case study wins hands-down as an incredible story because you probably didn't hear about it:

3M is the only manufacturer of perfluorooctane sulfonate (PFOS), which has been in use since 1950. It is found in water repellent coatings and fire suppressing foams, and is one of the ingredients of Scotchgard stain repellent. Several years ago, 3M approached EPA with findings that the material has been found in minute quantities in the bloodstream of people worldwide. Although studies have not demonstrated any hazard to humans, PFOS at high doses is known to be toxic to laboratory animals. Even more significantly, it appears to be persistent and pervasive in nature.

For most companies, the news media would trumpet these findings daily until the focus shifted to the conga line of lawyers filing class actions suits for damage to their clients' health. What happened to 3M? A senior scientist at the National Resources Defense Council (NRDC) praised the company for "removing the product before there is absolute scientific proof of harm." Would this have been the reaction if the company was one of the leading "bad guys?" Not likely.

In the months since this news became public via the back pages of newspapers, I have asked groups of environmental professionals if they were familiar with this story. Very few said they were. If environmental professionals do not know about it, you can imagine where this stands on the radar scope of investment analysts. I figure that 3M has saved $1 billion in shareholder value on the weight of this good will alone.

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Q: Has the IPCC, the United States, or another governmental entity proposed a cost/benefit threshold for greenhouse gas emissions mitigation projects to help industry determine when to launch such a project?

SR: This is intriguing. Has such a threshold been proposed? suggests a second, deeper question: *Should* such a threshold be proposed?

To answer the first question, I checked with a colleague working in the area of greenhouse gas emissions (GHG) credits and trading, then contacted several NGOs active in climate change, including the Intergovernmental Panel on Climate Change (IPCC), The Pew Center on Global Climate Change, The National Environmental Trust and the International Climate Change Partnership (ICCP).

The consensus is that while there has been some discussion on what a reasonable cost/benefit threshold might be, none has been formally proposed or adopted. According to Kevin Fay at ICCP, various research studies have placed a "reasonable" threshold between $10 and $350 per ton of carbon.

This leads to the more interesting second question. To establish any cost/benefit threshold, generally, *all* the costs and *all* the benefits must be properly identified and quantified:

Jean Pierce of The Pew Center on Global Climate Change says any cost-benefit analysis for climate change policies must deal with difficult issues such as long-term discounting, assessing marginal damages of climate change and the monetization of these damages.

According to Pierce, several studies have attempted to do cost-benefit analyses; an overview is provided in the 1996 book by the IPCC, "Climate Change 1995; Volume 3: Economic and Social Dimensions of Climate Change," edited by Bruce, et. al.

Thus is the crux of the difficulty for establishing a cost/benefit for GHG emission reductions. While the costs might be estimated with reasonable accuracy, the benefits are much less firm. How much is a ton of reduced CO2 worth, and does it have a different value if the reduction is achieved in Asia or in North America?

Moreover, if GHG emissions are reduced by a particular amount, will that specific technology or project will provide a corresponding, specific benefit in terms of moderation of temperature, reduced sea level rise or other factor? If so, can that benefit be both quantified and assigned an economic value? I doubt it.

That said, perhaps the closest thing to a cost/benefit threshold are the emerging GHG emissions credit and trading systems that are being piloted (http://www.ert.be and http://emissions.org). While GHG emission trading programs have their detractors, the benefit of the market-based system is that the value of the reductions become quantified in current financial terms -- the market-driven value of the credits produced by the technology or project.

As of this writing, carbon credits have a market value of $10 to $100 per ton, indicating a highly uncertain value and variable marketplace.

In the end, each company will -- and should -- have its own justification for reducing GHG emissions. Some companies will conclude they can make money doing this; others will reason they can reduce their operating costs; still others will find there's an intangible value-added in goodwill -- enhancing their image and increasing their social license to operate. And others will decide they have "more important and productive" things to do.

And perhaps that's the way it should be.

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Q: I have seen references to "commodity services" in articles regarding the environmental services industry. What does this mean, and doesn't it reflect badly on our profession to describe the work we do this way?

RM: Commodity environmental, health and safety services include sample collection and analysis, industrial hygiene monitoring, routine phase-one investigations, routine permit applications, and compliance audits for standard facilities. It is the stuff that comes in relatively small, discrete units, generally without much variation from client to client in terms of cost and scope per unit of delivered results. The service may require an experienced individual to set

up and check for unusual requirements, but relatively inexperienced individuals can complete the work following standard checklist protocols.

I agree with your point about the inference this gives our profession, but the real issue is that business management views practically the entire profession as a simple service commodity. In part, it is our own fault: we have been unable to make a good business case to management about the value we add to the business (as opposed to just being a cost drain). Management views filling out permits as being in the same category as filling out payroll checks. That is why there has been such a movement toward outsourcing and shared services -- forced by business management. We see a tremendous chasm between our view of our profession and its contribution to the bottom line, and the view held by management.

We need to be honest with ourselves and recognize that there are some aspects of environmental program management that are truly in the commodity category. All too often I've seen environmental managers try to hold onto their personnel (a.k.a. empires) by claiming everything is critical and strategic.

In fact, it covers a broad spectrum, and we endanger support for the most critical work by claiming that everything is essential. A small staff that outsources the commodity service work may be more credible and effective with management than a large organization that tries to do everything.

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Q: I'm thinking of hiring two student interns from a local university. Any suggestions on how to get the most from this relationship?

RM: I am a major supporter of these programs and actually set up several internships with Yale University and Northeastern University. That said, I would like to offer some strong words of caution -- there are some very specific do's and don'ts.

The number-one problem is when the manager sees these student interns as "free help" to the department. This can happen when the budget comes out of the human resources or community relations department in conjunction with an overall partnership program with the local university. As the interns are free, they can be viewed as having little potential or value to the department. Unfortunately, that is sometimes how they are treated.

Successful program managers hand-pick students. They define specific tasks and objectives to match the student's ability and background. They assign a mentor who is held accountable for the intern's professional developing and for getting results. What is absolutely critical is that the intern be given real-world work that is of value to the company -- not busy work. Interns can spot a fabricated assignment a mile away and nothing is more demoralizing.

It takes time for any employee to get up to speed and become productive. More so with interns. For this reason, I have always established programs of a minimum six-month assignment or those that run in a returning cycle, such as the co-op program offered at Northeastern University.

The bottom line is that these programs are of mutual benefit to your company, to the institution and to the intern, so it is in the best interests of all concerned to treat the student like a regular professional. In other words, demand performance and expect results. What goes around comes around: if you invest time in proper training, you will get productive help in the short term -- and possibly even a valuable employee down the road.

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.

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