Fast Governance

Years ago, when I was an environmental, health, and safety (EHS) manager at a chemical plant, I learned that appearances matter—especially during tours. Executives firmly believe that if a plant looks bad, it means that plant employees and managers don't care, and that product quality inevitably will be less than optimal.

Whenever a tour was imminent, I witnessed a lot of fresh paint being applied and (in the case of a poorly performing wastewater clarifier) fresh gravel being spread to cover recent "equipment malfunctions." Later on, when the old, below-ground clarifier was finally upgraded, I discovered that it had started life as an above-ground unit. The scene was like an archeological dig: I could identify the number of plant tours that had occurred by counting the alternating bands of gravel and muck.

We all accept that an unkempt and disorderly plant is a good indicator that environmental, health, and safety performance may be substandard. But what can we learn from corporate headquarters, which usually appear immaculate and strive to hide imperfections?

If you know what to look for and what questions to ask, key EHS governance issues can be identified at major facilities—or even entire corporations—in a few hours

The answer, as you'll see in this column, is "quite a lot." The key is a practice I call Fast Governance. It offers a quick way to evaluate how well a facility (or even an entire company) is handling crucial issues.

Before I discuss the approach in more detail, however, I'd like to offer some background on EHS governance problems and why it can be difficult to identify them.

EHS Governance Observations—And Revelations

Several years ago, while conducting research on EHS organizational design for the Center for Environmental Innovation, I spent half a day interviewing the top EHS managers at a Fortune 500 corporation. They asked for a candid summary of my observations—the good, the bad, and the ugly. About a year later, the company was rocked by major product and non-EHS regulatory issues, prompting a shakeup of the organization.

Richard MacLean

As part of the change, top business executives brought in a senior professional from outside to fill the position of EHS vice president. The person chosen was a colleague of mine from years back, who wrote to tell me about her new position. I congratulated her and gave her a copy of my observational summary. Several months later, and now with her feet on the ground, she contacted me to say that I had hit the major issues dead-on.

The EHS issues I pinpointed had been brewing for many years. But my summary was not just a list of items already identified by company staff that I regurgitated back to them (a/k/a "seagull consulting"). Instead, my greatest concerns revolved around aspects of EHS management with which the organization's staff seemed quite comfortable. The company's top executives probably did not know what these issues were—but to their credit, they sensed that they needed someone from the outside to effect change. And indeed they did.

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Why It Can Be Hard to Identify EHS Governance Problems

Some people develop an almost paranormal sense for ferreting out core governance issues. The source of much of this intuition is, of course, years of experience. It especially helps if you have had direct industry experience holding various positions—from front-line worker up to vice president.

By contrast, members of the public, stock analysts, and the media are at a disadvantage when it comes to probing successfully beyond the corporate facade because they typically are unfamiliar with technical and regulatory issues.

Even regulatory agencies, insurance underwriters, academicians, and nongovernmental organization (NGO) staff members—all of whom may be very knowledgeable—can be at a disadvantage if they have never worked "on the inside."

Why is this the case? There are a couple of key reasons.

First, direct experience provides people with an understanding of what it takes to get things done within a corporation and how business management thinks and operates. Without this perspective, you will have a difficult time cutting through the political correctness and positive spin that can obfuscate material issues. Corporate communication has become very sophisticated in recent years and EHS professionals have become quite proficient at delivering the "preferred" message. (This is a compliment, by the way, not a criticism.)

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For instance, is a company's boast of "100 percent compliance" genuine or wishful thinking? A perfect compliance track record does not necessarily indicate good EHS practices. It may just mean that the company or manufacturing site has been extremely lucky, or that the local regulatory agencies have been very lax. Even the company's own representatives may not fully understand the dimensions of what is needed to deliver flawless performance reliably.

Second, people who seek to evaluate corporate EHS management often rely on set checklists. These checklists are essential for tasks such as compliance auditing, but they are not robust enough to provide a good assessment of governance issues. Indeed, checklists can be misleading.

Regulatory compliance is only one element of good governance. Many other elements are also involved. Genuinely superior governance requires the company to address emerging EHS issues that may not (yet) be on any agency's regu-

Richard MacLean

latory agenda, but that can directly or indirectly impact the company long-term.

Rating agencies often use checklists to score a company's performance based on a set list of criteria ("Is an annual report issued?" "Is there a management system?" "Is it certified?"). But companies know that such binary, yes/no checklists can be easily manipulated (gamed) to obtain high scores.

A checklist may ask, "Is there a written EHS policy?" and may even probe down another level, asking, "Does it contain all the key elements specified in ISO 14001?" But rarely do these checklists assess business commitment to the policy—and commitment is a better determinant of quality for EHS programs. Estimating commitment requires more than just including a checklist question asking, "Is management committed?"

Why Fast Governance?

The preceding comments can make it sound all but impossible to evaluate corporate EHS governance unless you have a lot of direct industry experience. But that's where Fast Governance comes in: It gives you guideposts for making an evaluation even if you have never been a corporate insider.

Fast Governance can be a useful, inexpensive, and independent cross-check for determining whether EHS staff may have overlooked some key issues—a sanity check, as it were. It is also a good technique for raising management's awareness by highlighting key issues without spending a fortune on detailed independent audits.

Fast Governance is particularly useful when a company has numerous sites. It is also helpful when the company uses many subcontractors, and where follow-up inspections of their work form a key component of assurance systems.

As discussed below, the Fast Governance framework includes seven key areas of review. If "red flags" pop up in these areas, they may indicate deeper problems. Even if you do not have

the expertise necessary to fully evaluate these problems, identifying potential issues can alert you that it may be worth bringing in experienced resources to probe further.

The Disclaimer

Before discussing Fast Governance in more detail, a few caveats are important. Fast Governance is no substitute for thorough investigations. And it certainly is no substitute for a compliance audit.

The major areas listed below are primarily related to management systems and cover only the top-tier areas. They also provide limited guidance on how far to probe. When the investigator is determining which direction to take and how far to pursue concerns, much is still left up to individual judgment.

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Decisions must be based on the nature of the operations and the responses received. For example, in some cases, having only one trained EHS professional at a site or even in an entire company may indicate excellent management commitment and robust programs. In other cases, it may be clear evidence that this person is just the "chief flak catcher" or the designated "jailee" who will be thrown in the tank if a major environmental, health, or safety issue arises. It all depends. But the underlying principle is that staff size, competency, and organization are critical for effective governance.

In some instances, it is possible to develop very sophisticated branching logic charts for evaluating specific areas. I have created a number of these for issues such as staffing and outsourcing strategy. However, many EHS issues become hopelessly complex when charted—even though

experienced professionals can do the logic flow effortlessly in their heads.

Fast Governance: Major Areas of Investigation

The following discussion outlines the key areas and core issues that an investigator should assess. Keep in mind that this discussion can only serve as an introduction to the basics. In the limited space available to me in this column, I cannot possibly give a full listing of all essential questions to ask and all areas to examine.

Remember also that the nature of the inquiries will vary with the circumstances. Evaluating a single facility is obviously different from evaluating a corporate headquarters.

Staffing and Organization

EHS governance starts and ends with competent environmental, health, and safety professionals. If there are too few, everything will revolve around compliance and reactive responses to the "crisis du jour."

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EHS staff numbers do not tell the whole story, however. Even where staffing is short, if there is a critical mass of a few truly remarkable professionals, they eventually will convince management that their resources are inadequate. On the other hand, when EHS professionals do not have adequate skills, experience, authority, courage, or vision, problems will arise. Eventually, some issue will blow up, or the company will miss competitive opportunities.

In some cases, it is possible to outsource EHS functions, but this can be problematic. While compliance may be adequately managed, strategic direction and long-term competitive positioning may suffer.

Organizational structure takes only a few minutes to review, but it can provide a tremendous amount of insight. For example, organizations that report up through the law department generally view EHS as a compliance concern rather than a competitive issue. An EHS organization far removed from the center of power is a clue to management's commitment and interest (or lack thereof). If the top EHS position is held by a "trusted lapdog," management probably just wants to keep costs down and issues "under control."

Strategic Direction

Most EHS organizations claim to have a strategic planning process. In reality, it is usually a budget planning function. But companies that actively engage business executives and key functional managers invariably consider EHS issues strategic. In such cases, the business clearly is committed to excellence and is not just mouthing the words.

It is important to evaluate how much time and effort goes into policy formulation, strategy development, and mission and vision definition. These are not only good indicators of management commitment, but also show the extent to which the company or site is (1) aligned on these issues (i.e., all headed in the same direction); (2) forthcoming with resources; and (3) competitively positioned by the staff.

Awareness of Crucial Issues

Assumptions and "group think" can be powerful factors in running EHS programs. As staff members come and go within a company or facility, people rarely step back to reevaluate the past, present, and future in a truly systematic manner.

Instead, they tend to assume that they already understand past issues (where the skeletons are buried, so to speak). They rely on their trade associations to tell them about current events and

developing trends. They may spend an afternoon huddled in a room brainstorming the future.

The ISO 14001 management system contains a process for identifying significant environmental "aspects and impacts." But this process is rarely adequate for identifying emerging issues, especially given the manner in which the exercise typically is carried out.

Understanding emerging issues should be integral to strategic planning. The process should utilize SWOT (strengths, weaknesses, opportunities, and threats) analysis, scenario planning, and other appropriate tools.

Excellent awareness of past, present, and future concerns helps ensure that the company will not get surprised by some material issue. It is one of the best indicators of good EHS governance.

Management and Information Systems

Numerous tools are available to evaluate EHS management systems. Certification to a standard such as ISO 14001 offers a quick indicator that the facility or company may have at least a minimally functioning system in place. A better indicator of a performance-based system is the degree to which the company has custom-tailored its EHS systems to meet its business objectives.

Management systems should represent the precise tactical execution of the company's strategic plan. Simple questions (such as "How did this management system originate and evolve?" and "What was the justification and motivation for implementing this system?") can reveal a lot. If it appears that the management system is just a marketing tool or a public relations attempt to "check the box" next to greenness, then it may indicate shallow commitment and/or misdirected resources.

A few questions about the origin and nature of the information systems that support EHS programs can also reveal not only how well staff is able to run projects, but also how well information is integrated across the company (another measure of cooperation). Additionally, a robust information system is evidence of a focused strategy.

Information-system vendors often sell packages that promise to do anything and everything (whether you need it or not). For front-line EHS professionals, these can become beasts that must be fed but that yield little in return. A targeted, well-integrated information system that serves internal and external stakeholders is a good sign that the EHS organization has its act together.

Performance Evaluation and Reporting

How a company or site determines its key EHS performance indicators is a good gauge of its strategic focus. If the process is driven by the Global Reporting Initiative (GRI) and industry-sector benchmarking, it can best be described as a "follow the crowd" model. By definition, this approach is not strategic, nor does it offer any competitive advantage.

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The sophistication of the reporting process is an excellent measure of business management's interest and commitment. If the company or site sets stretch goals, publicly reports its results, has top executives (including the board of directors) regularly review the results, and holds business managers accountable for those results, then it is clear that the company or site is genuinely committed to performance.

Audit and Governance Systems

Good EHS audit and governance systems make all the difference between plain luck and assured performance with no surprises. Essentially, there are three governance levels: compliance (passive), risk reduction (active), and future positioning (aggressive).[1]

Most companies and sites audit to some extent. Some go beyond compliance auditing and regulatory-required inspections to include management system reviews. But few take it to the next level—where emerging EHS dynamics, business trends, current events, and anticipatory issues management are merged into a broader view of how the company or site should be positioned.

Training Programs and Employee Engagement

The sophistication and extent of a company's EHS training programs are direct indicators of how well the company will be able to consistently sustain compliance and avoid disasters. Engaged, enthusiastic employees signify that the company's commitment is real. Employees who are disengaged or poorly trained typically view the EHS staff (and not themselves) as responsible for environmental, health, and safety results.

Energized employees allow the EHS staff to work on programs that deliver competitive results instead of just compliance. The best pollution prevention initiatives, green product ideas, and safety innovations come from employees, not EHS staff.

Developing Your Own Fast Governance Methodology

Over the years, I have developed an array of tools to probe the core issues listed above. A few are mentioned in this column. Some zero in on very specific concerns, such as how well aligned the various organizational layers and functional areas are in their support of EHS objectives. Misalignment is one of the primary sources of internal conflicts, especially over resource allocation.

Some tools have graph charting components that help illustrate and explain results to business management. For example, at the most basic level, one can develop a matrix listing the seven key areas of concern described above, with ratings (from poor to best-in-class) for each area. There are also specific techniques for interviewing business executives to uncover reality as they honestly see it, without the spin.

With knowledge of the seven Fast Governance areas, you should be able to develop your own list of questions and other helpful tools that cut through the clutter and get to what really matters at a site or company. For instance, once you understand the Fast Governance approach, it becomes clear that a beautifully framed EHS policy on the wall in the lobby at company headquarters is not remotely as significant as the fact that the CEO spent several hours with a team developing it. The former gets a check mark with ISO 14001. The latter means everything to real success.

Now tell me: What other questions should you be asking?

Note

1. For a discussion of these levels, see: MacLean, R. (2003, March). The three levels of environmental governance. Where is your company in this spectrum: Passive—Active—Aggressive? Environmental Protection, pp. 20–23. Available online at http://www.eponline.com/.

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