

ENVIRONMENTAL MANAGEMENT FOR ASSET PRESERVATION

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Background and Context

In the thirty years or so that government and industry have been seriously struggling with environmental issues, the level of sophistication and commitment required in order to achieve the necessary level of environmental performance has steadily and exponentially increased. In the early days, as the first Clean Air, Clean Water and Waste Disposal acts and regulatory systems were being developed, compliance responsibilities were relatively simple and clear cut. Industry's task - to find and implement engineering solutions to clearly identified problems - was relatively simple, if costly. Accomplishment of this task did not create an urgent need for companies to change their "cultures" or the way they did business.

As the years have passed, however, that circumstance has changed. The laws and regulations have increased in complexity and intrusiveness to the point that most companies need to develop comprehensive compliance systems and "compliance cultures" to consistently meet the "letter of the law." Beyond that, companies are finding that simple compliance with the law is often not sufficient to protect their assets and the tremendous investments that they have made in creating favorable images and brand identification. Actions in compliance with law may still result in environmental incidents, damage and findings of lack of due care - resulting in lawsuits and punitive liabilities. Actions in compliance with law may still be found socially or environmentally irresponsible - resulting in adverse consumer or NGO actions, boycotts and public protests. Actions in compliance with law, even if due care is exercised, may be misperceived by affected communities or organizations - resulting in undeserved consequences.

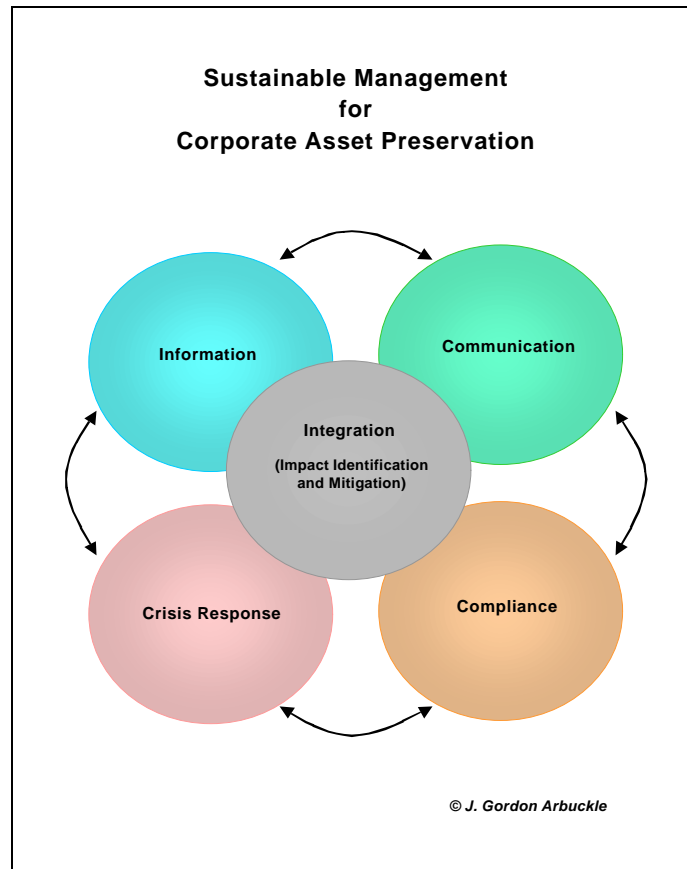
Forward-thinking companies understand increasingly that actions beyond compliance are needed if unanticipated losses are to be avoided. These companies are undertaking systematic efforts to, "Do the right thing, do no harm, minimize environmental footprints, immediately respond to incidents and effectively communicate concerning all of the above."

At the same time, sophisticated regulatory authorities are recognizing that detailed, prescriptive "command and control" regulatory systems may get in the way of truly exemplary environmental performance. These authorities are increasingly contemplating "sustainable" regulatory systems which encourage more flexible judgmental and systems-based decision making concerning mitigation and minimization of social impacts and environmental footprints.

Added to this context is the coming to fruition of a number of long-nascent international standardization efforts which focus on and substantially impact corporate responsibility. Most notable of these are:

- (1) The ISO 14000 Standards.¹ A set of standards on environmental issues related to operations, auditing, products and product claims, including an independently auditable standard for Environmental Management Systems;
- (2) SA8000.² An independently auditable standard on social accountability; and
- (3) CERES' Global Reporting Initiative.³ A management and reporting systems framework under development for sustainability.

These developments can give us a picture of what the new millenium's Sustainable Management System needs to look like. A graphic representation of that "picture" follows.



¹ The ISO 14000 series of standards has been developed by the International Organization for Standardization to establish basic requirements for Environmental Management Systems. ISO shares a common background with EMAS, the European-based Eco-Management and Audit Scheme, and is broadly accepted – particularly in the European Community -- as an indicator of appropriate environmental management practices.

² Of the emerging trends and standards of practice defining social accountability and corporate conduct, SA8000, developed through the collaborative efforts of representatives of industry, nongovernmental organizations, auditors and others, and launched by the Council of Economic Priorities Accreditation Agency, seems to be the most universally-accepted and recognized standard.

³ Currently under development and spearheaded by CERES, the Global Reporting Initiative is a collaborative, international effort striving to develop and establish a management and reporting systems framework for sustainability.

What the picture shows is that our present single-focus, compliance-oriented management system needs to be replaced by an integrated, multi-tasking set of systems:

- The Impact Identification and Mitigation System
- The Information System
- The Communication System
- The Crisis Response System
- The Compliance System

As suggested by the figure, these systems overlap, are interdependent and function as an integrated whole. This integrated whole is the Environmental Management System that ISO 14000 contemplates and can also incorporate the social accountability aspects of the SA 8000 approach. These standards, or standards like them, will be the unifying principles of the sustainable management systems needed for 2000 and beyond. Lets talk just briefly about each of the sub-systems.

Impact Identification and Mitigation – The Integrator

Starting from the top, we come first to the cumbersomely, but descriptively named, Impact Identification and Mitigation System. This system reflects the core premises of the ISO 14000 approach: (1) Any workable environmental management system must be based on an enunciated environmental policy; (2) The work must proceed from a judgment-based identification of significant environmental impacts that may result from “aspects” of the company’s operations, through a common-sense ranking and prioritization process and toward a scheduled determination and implementation of appropriate prevention or mitigation measures; and (3) The effort must be documented by objective evidence of, at least, a commitment to conform and efforts that demonstrate that commitment.

As we will see below, the system which hosts the management of these ISO core functions will appropriately function as the “Integrator” of the other subsystems. It is the place where we take a holistic look at our Company’s operations, determine how to avoid or mitigate our real or potential adverse effects and decide how to manage and document that process. This is where the heavy lifting takes place – where we answer the key questions such as:

- How aggressive does our policy need to be?
- What are the real risks associated with our operations?
- How do we know?
- Which risks do we need to deal with first?
- How do we decide and what do we need to know to decide ?
- What are the appropriate prevention or mitigation measures?
- How did we decide?
- What are the potential incidents and how should we respond?
- What will we need to know to respond?
- Who will we need to respond to?

As we answer these questions, we will know what the other subsystems will look like and what our overall management system will be. Before we do that, however, let's take a quick look at where we are going.

The Information System

As you will have noted, the Information System (IS) both feeds and is fed by the Integrator. The Integrator tells the IS what must be documented and what information is, or will be, needed. The IS tells the Integrator what it needs to know in order to identify risks, rank them, prevent or mitigate them and respond to incidents if they do, despite all efforts, occur. The Integrator also tells IS what other communities or organizations need information and what information they need. The Communication System, discussed below, tells us who we need to talk to, what they need to know and how we tell them. In effect, the new paradigm contemplates a custom designed Information System, integrated with the Company's operating system and the other EMS subsystems, both to facilitate and effectively demonstrate conformity with the Corporate Environmental Policy.

The Communication System

If the Information System tells us what we need to know, the Communication System tells us who to tell it to and how to tell it. The Communication System is increasingly important in today's world of media-driven opinion and quickly-shaped perceptions about corporate behavior and commitment. In this climate, we see consumer and public opinion increasingly shaped by "stories" - be they legitimate or inaccurate - advanced through the media, and increasingly, through the internet. Reversal of damage done through adverse public opinion can be a lengthy and costly process. Often, even the toughest of situations could have been prevented or, certainly, diluted had a comprehensive communication system been in place.

So - now, more than ever, companies need to have a system that clearly provides for the management of communications. For the system to function effectively, it must have solid mechanisms in place that address communications that are both internal and external to the company. As with other elements discussed above, reaching that bar of effective performance is highly dependent on the Communication System's facility in absorbing from and giving back to the Integrator, the Information System, the Compliance System and the Crisis Management System. The best way to accomplish this is through an effective environmental management system based on appropriate goals and an honest and well-motivated corporate culture - subject to the discipline provided by an open dialogue with the communities concerned with our activities and a workable mechanism for periodic reporting. Spurred by movements such as the Global Reporting Initiative, the environmental and social responsibility annual report is becoming an increasingly essential component of an "acceptable" management system. These reports provide an effective and increasingly important means of communicating the company's social and environmental performance to shareholders, customers and other concerned parties. An effective annual report must be honest, direct and straightforward. It must be founded upon an adequate and current information base, and it must be understood by the company's management and employees as well as the target communities.

Finally, the Communication System must be able to respond to inquiries from “outside” and to take into account information and opinion from those sources in regulating corporate activities. We need to be able to demonstrate responsiveness and to make those who take the time to comment on our activities to understand that their input is important.

The Crisis Response System

While a number of companies seem to be initiating crisis management programs, most of those efforts are stand-alone programs and seem to emphasize things like generalized training in communications skills and pre-designation of attorney/public relations teams to get on site after the incident to triage, mop up, minimize, and defend. We do not mean to minimize those efforts – however - how much more effective might they be if predicated on the subsystems outlined above.

- We know whether a problem alleged to have occurred is likely to be real or imagined.
- We know where the likely point of system failure is, what units may have been affected and where they are.
- We can demonstrate diligent efforts to manage this risk.
- We know who the potentially affected communities are, which spokespersons to communicate with and have built a record of real credibility with them.

In short, Crisis Managers should be like the Boy Scouts - and what they should be prepared with - in addition to the right spokespersons and defenders - is the right information, the right fixes for the problems and the right record of responsibility. A Crisis Management Program, which is a subsystem of an effective Sustainable Management Program, will provide those tools.

The Compliance System

Finally, the old tried and true - the Compliance System, it will not go away – ISO 14000 requires, at a minimum, that a system demonstrate commitment to compliance with law – but what that means very well may change. It may change because, as noted above, at least some of the regulators know that the present highly prescriptive system gets in the way of the truly effective, innovative compliance program. There is at least some indication of a willingness to provide a “Performance Track” where the high achievers can focus on their mitigation plans and minimize their expenditure on permits, inspections, and monitoring. For example, the EPA Innovations Task Force in its recent report, *Aiming for Excellence*, includes the following observations:

In the past, EPA and state governments have relied on a strong enforcement program to [make sure that businesses comply with the law]. We’ll continue using this effective tool, but we must look for new and creative ways to achieve compliance and improve performance capabilities ... We will work ... to identify appropriate building blocks for a new ‘performance track’ that enhances the current regulatory system.

With this kind of thinking, there is, at least, some hope that effective environmental management will automatically achieve compliance as that is one standard by which compliance may become

measured - resulting in significant overall benefits to the environment as well as advantages to the company in terms of reduced oversight, monitoring and paperwork costs.

The Bottom Line

To summarize, the Sustainable Environmental and Social Responsibility Management System for the year 2000 and beyond is not a lot different from what a few cutting edge companies are actually doing and a larger number of less cutting edge companies profess to be doing now. To bring it into the mainstream and make it real, however, we need to see real benefits.

- We need to see reduced conventional compliance costs for Industry Leaders on the Performance Track.
- We need to document the benefits of increased worker morale and enthusiasm.
- We need to know that our products will have broader markets if our management program is exemplary.
- We need to know that our risks are reduced and, perhaps more importantly, our insurance carriers need to recognize that fact.

If most of this comes to pass, we may well see the Sustainable EMS and Social Responsibility Programs where they need to be - front and center - along with profitability, as the CEO's prime objective. We may see more dialogue and less conflict, and more performance and less argument. Good for the Environment, Good for the Companies, Good for all of us.

My time's up. Thanks for yours.

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