

Environmental Strategy – Stepping Up to Business Demands

Karen Blumenfeld and Anthony Montrone

Business leaders have recognized for some time that business decisions have environmental implications and environmental decisions have business implications. What's new is that a few companies on the cutting edge are finding ways to use the environment as a catalyst for business advantage. By incorporating environmental thinking into their basic business decision-making, they are shaping – whether consciously or unconsciously – the emerging discipline of environmental strategy. Some of the companies who are pioneering this process were represented at Arthur D. Little's Best-of-the-Best Colloquium on Environmental Strategy. Like other companies, they face many challenges as they explore ways to turn environmental strategy to competitive advantage. But as you will see, they are committed to converting their challenges into opportunities. In particular, they are paying close attention to meeting three key objectives:

- Managing stakeholder expectations
- Using the environment for competitive distinction
- Integrating business and environmental goals

Managing Stakeholder Expectations

„When I look at AT&T, I think of the list of entities and agencies, companies, employees, supply chains, and, communities that are our stakeholders – the list of nonstakeholders is very, very short. Just setting out a strategy to take all of these into consideration in the planning process is a huge task.“ This observation by Lelia McAdams, Technical Manager, Environmental Strategic Planning, AT&T, frames one of the major challenges facing management.

How do you weave the environmental expectations of stakeholders into a company's business decision-making process and overall strategy? Leading companies spend significant time and energy responding to their stakeholders' needs. High-quality products at a competitive price for customers, well-compensated jobs and career advancement for employees, and growing financial returns for owners have all been hallmarks of sustained competitive advantage. As the awareness of environmental issues has grown, so have public expectations of corporate environmental performance. Thus, an expanded list of stakeholders now includes:

- Local, state, and federal regulators, who not only regulate industrial operations but, particularly in Europe, are increasingly concerned with the environmental aspects of products, including their material composition, use, and end-of-life management
- Plant neighbors, who are fearful of the risks presented by industrial operations and need information and reassurance regarding environmental stewardship
- Environmental groups, who are increasingly sophisticated, informed, and able to influence both public opinion and markets

But who shapes public opinions and perceptions today? „A few years ago, you knew who the societal thought leaders were on these issues. Today there are so many tentacles to the environmental movement that it is important to be 'choiceful' about where you focus your efforts to partner and to learn,“ cautioned Frank Consoli, Director, Delivery Systems and Environmental Quality, Scott Paper Company. Moreover, in the words of George Nagle, Corporate Director of EHS Services, Bristol-Myers Squibb, „It is not yet clearly defined just what role industry will be allowed to play in the global public debate – how far should industry go in helping shape public opinion to influence or affect the way these issues are resolved on a global basis, in terms of both legislation and regulation?“

Also, in their role as environmental stakeholders, consumers are giving mixed messages. Five years ago, consumers were reporting in surveys that they would be willing to pay more for a green product, but that promise was not borne out in the marketplace. Moreover, while the public expects companies to deliver environmentally responsive products and increased levels of stewardship, there are significant gaps in public knowledge of just what is technically more environmentally sound. It is critical to understand customer and public perceptions about your company's products – or your company's overall environmental stance. Jane Hutterly, Vice President, Environmental and Safety Actions-Worldwide, for S.C. Johnson & Son, put it this way: „If we don't know what perception is out in the public about our products, we are not doing our job.“

The Aerosol Can Example. S.C. Johnson is one of the world's largest marketers of aerosol products for the home. A few years ago, they found there was a perception – even in developed areas of the world where post-consumer recycling programs were rapidly increasing in number – that aerosol cans could not and should not be

recycled. Basic lack of knowledge about aerosols fueled this gross „non-recyclable“ misperception. But, in reality, aerosols are recyclable, and the steel industry is in great need of good, recycled steel as a component of making new steel. Empty aerosol cans, made up of 25 percent recycled steel, are logical sources to fill this need. If the misperception by influential groups – including municipal and local governments, the federal government, environmentalists, and community leaders – had been allowed to continue, the idea that aerosol cans are „household hazardous waste“ would have continued to spread.

Obviously, this would have meant an increased cost of doing business with that product form. Consequently, S.C. Johnson embarked on a five-year aerosol-focused educational program with the objective of increasing the number of municipalities within the United States that recycle empty steel aerosol cans. The outcome of that program was highly successful:

- S.C. Johnson built strong alliances with local, state, and national governments within the United States, leading to an EPA recommendation that empty aerosols be recycled.
- The responsible environmental profile of the aerosol can was enhanced and improved with customers and consumers.
- The company reduced misperceptions about the aerosol can itself – for instance, that U.S. aerosols contained chlorofluorocarbons (CFCs).
- S.C. Johnson’s already responsible environmental image was enhanced and its industry leadership in the aerosol product form recognized.

S.C. Johnson formed key partnerships with the Steel Can Recycling Institute, the steel industry, the Chemical Manufacturers Association, Keep America Beautiful, and the U.S. Conference of Mayors. These partnerships helped leverage the existing recycling infrastructure for collecting and recycling coffee cans and soup cans and – because adding more steel is economically beneficial – helped convince cities, counties, and states to process aerosols for recycling. Thus, with a recycling infrastructure in place, S.C. Johnson was able to educate consumers and environmentalists, change perceptions, and introduce information about the aerosol package – the steel can – as a highly recyclable packaging form.

Using the Environment for Competitive Edge

„Theoretically, if you believe that the environment is another arrow in your quiver, then there is absolutely nothing wrong in having a position that builds on environmental accomplishments to say ‘we’re better’.“ This statement by Frank Consoli, Scott Paper, proved controversial.

To what extent can a company highlight environmental performance and say, „This makes us better“? Some people believe that if a company aggressively uses the environment to establish business advantage, it has to take a leadership position. Such a company is essentially rewriting the rules of the game, raising expectations in the marketplace, and forcing other companies to follow if they want to compete. And these leaders will often go on to share their knowledge across the industry to increase the return to society.

However, the concept of „environmentally preferable products“ as a source of competitive distinction remains controversial. Many companies are reluctant to move in this direction for fear that it could backfire. For example, environmental groups might publicly question the true environmental value of the product or look for other aspects of the company that are less than environmentally sound. This could be particularly risky, for example, for a large industrial company whose plants produce many different materials or products. One material or product may have environmental advantage, but another could be more vulnerable.

Nonetheless, leading companies are taking a long-term approach and are seeing the payoffs. „What’s critical,“ according to John Mincy, Vice President, Safety and Environmental Affairs, Ciba-Geigy, „is a long-horizon approach – the issues around Superfund in the United States remind all of us that the steps we take today will determine our companies’ environmental future and strategic success.“ For example, Elizabeth Rose, Vice President of Employee Satisfaction and Environment, NORTEL, described how her company recognized early on that CFCs would become increasingly controversial. By discontinuing the use of CFCs, NORTEL seized the lead in meeting public expectations, while also changing the rules of the game in its global industry.

Post-Consumer Paper Waste. In the late 1980s, the managers at Scott Paper were discussing the new federal procurement guidelines concerning recycled paper content in paper products. Should Scott invest in an approach for using pre-consumer waste paper in its products, as many of its competitors were beginning to do? Or, should the company go one big step farther and invest in a process for using „dirty“ post-consumer paper waste? Either

approach meant investing in capital equipment, processes, and new relationships.

Scott was a leader in choosing the more progressive and riskier post-consumer strategy. Eventually, the EPA and industry also preferred the post-consumer route. That meant that eventually all paper companies had to invest in the capital equipment and relationships to support this approach. By taking the lead, Scott was able to establish the terms of competition. And Scott already had strong relationships established with post-consumer waste suppliers, making it somewhat difficult for other paper companies trying to find paper sources.

As a result of Scott's stance on using post-consumer waste, the company was recognized as environmentally progressive and became a leading voice in influencing regulatory and governmental positions. From the regulators' point of view, having one company move ahead helped push other companies to follow.

Integrating Business and Environmental Goals

„Sustainability is not just environmental – it also involves economics, resource management, financial integrity, and similar concepts that permeate the entire decision-making process and affect the livelihood of the organization and its stakeholders.“ Thus Don Fraser, Manager, Auditing, Monitoring and Reporting, Environment and Sustainable Development Division, Ontario Hydro, framed the magnitude of the challenge of integrating environmental and business strategies. Many business factors contribute to this challenge:

- Boundaries – from continental borders to internal business units – make it difficult for environmental professionals to decide how best to add value across regions and businesses, each of which has its own special environmental challenges and opportunities.
- Many business managers view consideration of the environment as merely a necessary cost of doing business; they do not fully recognize, or know how to exploit, the potential cost-saving or revenue-enhancing opportunities associated with the environment.
- When businesses are struggling financially, it is often difficult to focus senior managers' attention on the environment.
- Business managers have traditionally viewed environmental management as a strictly manufacturing-related function; only recently have they begun to understand the environment's place in their companies' core business processes, such as research and development, procurement, product development, and finance and accounting.

Furthermore, the integration of business and the environment is sometimes hampered unintentionally by the environmental management team itself. Within some companies, the rapid growth and sizable impact of environmental issues has spawned a technocracy of environmental specialists. Made up of lawyers, government relations staff, and engineers, these specialists use a language all their own and too frequently divorced from the mainstream of business strategy and decision-making. „Often, there is no clear definition of terminology,“ pointed out John Difazio, Director of Environmental Business Development, Dow Plastics North America. „Words like ‘sustainability’ and ‘eco-efficiency’ are defined in many different ways. We throw these words around, confusing ourselves and certainly confusing those on the business side. There's a real need for clarification of terms if we're really going to move ahead in this area.“ In some cases, by failing to make the business case for environmental strategy, the environmental management team has inadvertently created a „green wall“ between the businesses and the environmental group.

Colloquium participants shared examples of how their companies have integrated environmental issues into their decision-making processes, thereby scaling the green wall and tying more closely the business and environmental functions.

At AT&T, cross-functional teams made up of staff from the firm's research community, business units, legal department, environmental and safety officers, and corporate environment and safety organization have come together to develop understanding of and approaches to:

- Green accounting: getting financial systems to allocate environmental costs
- Energy: integrating energy efficiency into designs
- International environmental standards: influencing the coming generation of standards
- Supply line management: partnering with suppliers to obtain environmentally appropriate materials
- Take-back: preparing for the return of products at the end of their useful lives

- Life cycle assessment and design for the environment: understanding the overall environmental impact of products

At BASF, a manufacturer of industrial and commercial products, an environmental-opportunities group has been established to help business managers and marketing staff throughout the company understand and take advantage of environmentally based opportunities for competitive advantage. „If we can sell our waste to generate revenues, that gets the business person’s attention. If our sales staff can help our customers solve problems, reduce costs, or increase performance, that keeps the customer’s attention,“ said BASF’s Steven Rice, Manager, Environmental Opportunities, Environmental Opportunities Venture.

Ontario Hydro has established a system of „integrated resources planning“ as the basis of decision-making – pulling together business and environmental strategists to consider all options in arriving at best decisions. Don Fraser provided an example to illustrate this: in the past, if Ontario Hydro had wanted to provide a new source of energy, it would probably have tapped into an existing energy source, built a distributing station, and provided the power. But to meet the same needs today, Ontario Hydro examines the alternatives. Perhaps a small independent generator in the community could be used to provide the power. Or maybe they would choose an energy-efficiency program that could yield an additional 5 or 10 megawatts of electricity for the community. A third approach might be a renewable energy technology, such as fuel cells or a wind source. This alternative-options approach is supported by full-cost accounting, that is, understanding the implications of each of these options for cost and other business factors.

To integrate business and environmental goals successfully, companies are striving to change organizational behavior from top to bottom. Charles Bravo, Manager of Environmental Management Policy for the U.S. Postal Service stated that, „If you can move your staff away, for example, from the use of certain chemicals that are hazardous, then you can be freed from the laws governing those chemicals. Not only do you reduce your potential liabilities, but you also free up staff time to focus on performance improvement and business opportunities, not just compliance.“

The companies that successfully build sustainable advantage for the future will be able to seamlessly integrate environmental considerations into their business decisions. To enhance integration, they will place environmental expertise directly into the lines of business. The role of corporate environmental professionals will be to serve as „knowledge brokers“ to the businesses. That is, they will gather and interpret the necessary information from the external world and provide it to the businesses in such a way that the businesses can understand it, integrate it, and use it to take action. Environmental professionals will be required to take a broader perspective, understanding the implications of the environment for all aspects of the business, not just the manufacturing operations.

So how can companies best create environmental advantage to support their business goals? In our experience, two changes are required. First, business managers need to shift the paradigm: they must come to view the environment as a potential business opportunity, not just a liability that the environmental staff worries about. They need to actively manage environmental opportunities and threats throughout the value chain of the business, not only in the manufacturing operations. Second, and equally important, environmental managers need to change the way they view their contribution to their companies: they need to expand their self-image and operating style from technical advisers to business strategists. They need to act and talk like part of the business, break out of their old compliance and risk-management mentality, and actively work to reduce the barriers to collaboration with other business functions. Both these changes will need to occur if the environment is to find its rightful place in corporations as a source of competitive advantage.

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