

THE ENVIRONMENT



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THE 1987 BRUNDTLAND REPORT defines sustainable development as progress that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Easily said, but how is this to be achieved given that the world economy is seemingly based on ever-increasing industrialisation, population growth and urbanisation, at the expense of the environment? In his recent book *In Earth's Company: Business, Environment and the Challenge of Sustainability*, Carl Frankel outlines the need for a transformation in our global business practices due to the inefficient use of the planet's resources. Frankel presents the need for new strategies in order to establish a supportable economic quality of life for the 10 billion people who are expected to populate the planet by mid-century. But what are these new strategies?

Environmental Management Systems

Since the 1960s, corporations have witnessed an era of compliance marked by the promulgation of numerous environmental laws, followed by an era of voluntary environmental management to help prevent pollution, emergencies and environmental disasters such as the Exxon Valdez spill and the Bhopal catastrophe.

In the developed world, many corporations are now implementing voluntary environmental management systems (EMS) to prevent and minimise environmental impacts. However, site location, local environmental regulations, and the level of legal enforcement will often dictate the stage of a compa-

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Eco-Efficiency: The Next Step Toward Sustainable Development

ny's environmental management or compliance. An EMS can be developed according to various published guidelines but the ISO 14000 series of standards developed by the International Standardisation Organisation (ISO) are the most internationally recognised. A few thousand companies across the world have already obtained their ISO 14001 EMS registration and many more are in the process of becoming registered.

Although the ISO standard is not prescriptive, it requires companies to have a formal EMS that includes:

- a documented environmental policy honoured by senior management;
- documented procedures to prevent or minimise all significant environmental impacts;
- an employee environmental training programme to ensure environmental awareness and respect of environmental regulations and documented EMS procedures;
- regular internal and external audits of the EMS; and,
- an annual management review of the system.

The system is based on continual improvement of environmental performance but it does not require specific performance levels to be met. In fact, companies can be out of compliance with environmental regulations and still be ISO 14001-registered. For some companies, an EMS will be next to meaningless whereas for others it will be a stepping stone to substantial progress.

According to conventional economic wisdom, environmental protection is costly and cannot help the firm's bottom line. This "old" way of thinking has now been proven wrong by numerous examples, including the substantial cost savings realised by companies that have implemented effective environmental management systems. Savings are relat-

ed to energy and waste reduction, decreased chemical use and fewer environmental mishaps. An effective EMS is now recognised not only as a way to prevent pollution, but also as good business sense. It can also be appealing to consumers who prefer dealing with environmentally responsible companies and to shareholders that are demanding environmental responsibility.

Corporate Eco-Efficiency and Shareholder Value

If we accept the proposition that good environmental management can save money then we are ready to make the next step to "eco-efficiency". How can a firm increase profits and shareholder value by ecological efficiency and "environmental marketing"?

Eco-efficiency is a management approach that promotes increased production using fewer resources and less pollution. It encourages businesses to become more competitive, more innovative, and more environmentally responsible. Whereas pollution prevention focuses on reducing environmentally harmful outputs, eco-efficiency considers resource inputs as well. It aims at streamlining the full range of corporate metabolic processes—less stuff in, less waste out. It is a new era of increased environmental performance that corporate leaders are gradually entering.

More companies and investors are now taking on the challenge of explaining how their companies are making the link between ecological and economic efficiency in an effort to anticipate market demands, gain a marketing edge and deliver more value to shareholders. A recent report by the World Business Council for Sustainable Development (WBCSD) concluded the following.

- Companies should recognise and exploit environmental drivers in their strategies for stewardship, profitabili-

ty and growth, and devise better ways to communicate the value they create.

- Financial analysts should integrate these drivers, both qualitatively and quantitatively, into their evaluation by asking specific questions about leadership, strategies, systems, goals and performance.
- Investors should consider this performance and analysis when making their investment decisions.

In its report, the WBCSD includes details on these conclusions and gives good examples of how corporations have increased shareholder value by improving environmental performance. If companies wish to attract investors, they should demonstrate that they are top environmental performers, and they should market their environmental edge.

A perfect example is Volvo's new "Environmental Product Declaration" relating to its new S80 Sedan. The declaration is a consumer guide detailing the environmental impact of the new vehicle, from the design and production phase through its lifetime and ultimate recycling. Hans-Olov Olsson, president and CEO of Volvo Cars of North America, stated: "Volvo expects other companies throughout the business world will realise the importance of educating its consumers, and follow suit with their own product declarations". Not only is Volvo one of the most safety-conscious auto makers, but it is now on the way to being one of the most environmentally conscious. This is very effective marketing.

The Volvo example demonstrates that business executives can view environmental management in one of two contexts: as a cost centre or as a revenue centre. The former is technical, reactive and compliance-oriented and is seen in terms of risk reduction, re-engineering or cost cutting. The latter is entrepreneurial, pro-active, and strategic. In other words, environmental know-how can be deployed aggressively and creatively to shave costs and create new business opportunities. Few executives realise that environmental opportunities might actually become a major source of revenue growth.

Market-based case studies are showing that good environmental performance is reflected positively in stock market performance. In recent years there has also been a noted "ethical awareness" among shareholders, which has created an increased demand for the shares of envi-

ronmentally friendly companies. As a result, environmental criteria are being used in the development of more than 50 mutual funds, totalling more than US\$2 billion in the US and Europe. It is estimated that socially and environmentally responsible investment portfolios have roughly US\$1.2 trillion in assets. Many major banks and asset managers throughout the world now shun companies that do not manage their environmental and social risks properly, favouring those that are eco-efficient.

The Need for Environmental Awareness Education

The pace at which environmental improvements take place depends largely on how fast we integrate environmental awareness education into everyday life, at all levels—public, corporate and governmental. In North America, for example, there is a great need for a heightened level of environmental awareness in the population. It is no secret that North Americans consume a disproportionately large amount of the world's resources and similarly produce a disproportionately large amount of the world's waste. Many do not give a second thought before turning on the air conditioning, driving to the corner store to buy a bag of chips, or throwing out disposable foam plates and plastic cutlery at a fast-food restaurant. These habits are part of life for the average North American—they are deeply entrenched and, likewise, will take several years to change.

Environmental education must continue to be integrated into academia at all levels, to ensure that our children learn about source reduction and the benefits of environmental protection and eco-efficiency. At the university level, environmental management and eco-efficiency should be integrated into all programmes so that our future corporate and government leaders can apply the concept of sustainable development. This is essential if environmental considerations are to be part of future decision-making and strategic planning.

Corporations similarly need to regularly conduct environmental awareness programmes for their employees. Experience has shown that employee environmental education and training can have significant paybacks due to a decrease in environmental incidents

and substantial cost savings due to more stringent operational procedures.

The need for environmental education of consumers is also pervasive. For example, how many of us really know that:

- the fast-food giant McDonald's buys over \$350 million annually in recycled products, has succeeded in eliminating 10,500 tonnes of packaging annually between 1991 and 1995, has increased the average recycled content of corporate packaging from 17% to 45%, and raised the consumption of recycled packaging to 220,000 tonnes per year;
- the Body Shop has a supplier accreditation programme that awards ratings of zero to five stars for environmental performance and publishes a list of suppliers who have reached a certain rating level;
- the German auto-maker Daimler-Benz requires its suppliers to be ISO 14001-registered; and
- Dow Chemical has a 10-year plan to save \$1.8 billion due to environmental improvements.

This type of information should be very visible to consumers, to allow them to factor environmental protection into their purchasing decisions. There is a need for—and a payoff from—more effective "environmental marketing" by the corporate world.

Summary

The world cannot survive the current onslaught of human wastefulness and environmental exploitation unless there is an increase in global environmental education and a shift in corporate and governmental strategic planning. Positive changes such as the move to eco-efficiency are occurring but they are in their infancy. There remains a pressing need to integrate environmental thinking in corporate and governmental decision-making. Our hope is that future politicians and corporate leaders will be more environmentally aware and bold enough to take unconventional and innovative measures to ensure environmental protection. We need more leaders, like Volvo, who will voluntarily lead the way to sustainable development and reap the financial benefits from being eco-efficient. ♦

See www.192.197.196.1/business/default.htm for an excellent website on business and sustainable development.