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What's Your *Strategy?*

Environmental strategies get obscured in a fog of politically correct rhetoric. It's time to lift the cloud

By Richard MacLean

To read company environmental and social responsibility reports, one may surmise that companies today have strategies of "environmental excellence," "sustainable development," "minimum harm to the environment," or some similar nice-sounding phrases. But what do these expressions really mean in actionable business terms? Not very much. This is the second in a series on environmental health and safety (EHS) strategic planning. In February (see www.eponline.com under Archives) we examined the necessity for developing a strategic plan. This month we examine the basic environmental strategy options available to business executives. It's not what the companies claim, but how they allocate resources that determines the real strategy and that's where the confusion arises.

Strategy, policy, vision and value statements get intermingled. It is truly rare that company environmental vision statements present what they should: a clear compelling image of the desired future state that helps employees understand the future direction and achievement of the organization's purpose. They usually wind up as value statements sounding a lot like "We believe in Mother Nature, and cute furry animals."

Similarly, strategy statements get intertwined with public policy positions that are meaningless to employees. Even worse, these politically correct statements in actuality may be diametrically opposed to the true business strategy expressed by business executives. Business-minded expressions of desired strategy are usually clear, blunt and unambiguous. Thus, while the declared strategy may be "environmental excellence," the CEO is heard in private to say, "We do not want any non-compliance screw-ups!" This utterance is usually accompanied by the sound of a fist slamming the table. When all is said and done, this is the strategy that will drive budgeting and capture the attention of individuals.

Companies may package their strategies using a wide variety of statements, but when you cut through all the verbiage, generally there are only a few basic environmental strategies. This is similar to the business world where, for example, Michael Porter, professor at Harvard Business School, defines just three generic strategies: Overall Cost Leadership, Differentiation and Focus.[1] In my work with corporations I have found six strategies and one "hybrid" as illustrated in Table 1. This table is an adaptation of a recent article on business strategy appearing in the *Harvard Business Review.*[2] The distinguishing characteristics among the six strategies are as follows:

- Minimum Cost — At its extreme this represents the absolute bare bones EHS management plan: do only what is absolutely required to keep things running. Implement a new capital project or program only if it clearly has a return on investment (ROI) equal or better than other resource investment options. It implies that there is a continuum of risk/benefit calculations in play, whereby some resource consuming activities encouraged by standard industry practice or even required by regulations may not be done, if they appear unjustifiable from the company's perspective.

Managers rarely give the order today to directly violate regulations because of the inherent personal liability consequences. What may happen, however, is EHS programs are so poorly funded and staffed that non-compliance issues are inevitable. This is the classic case of the EHS staff developing ulcers from the knowledge that things are being held together with baling wire. Resource requests are repeatedly denied and when the proverbial crap hits the fan, management expresses shock and indignation — fire the incompetent EHS staff and we'll fix this mess now!

- Compliance Focus — This approach might also be called a legal strategy. It is a variation of the minimum cost strategy, but with business management having zero tolerance for non-compliance issues. When it comes to meeting all the regulations, all the time, management is willing to spend whatever it takes, including aggressive lobbying and legal challenges to proposed or existing regulations.

Sadly, benchmarking is all too often used by EHS managers to justify the implementation or continuation of essentially identical programs.

In the past, meeting the letter of the law was taken as both a demonstration of socially responsible action and a low-risk option. Today, with increasingly complex litigation and the emphasis on social responsibility, this approach can be problematic for some industries that depend on community goodwill or brand name loyalty.

- Risk Averse — This strategy combines a compliance focus with a forward-looking rigorous examination of all potential risks. Thus, while there may be no laws that prohibit a certain activity, a company employing this strategy will examine the long-term issues in play such as worker compensation claims, toxic tort liability, catastrophic releases and so on. Business managers view EHS as a potential prob-

Table 1. Approaches to EHS Strategy

	Minimum Cost	Compliance Focus	Opportunistic	Risk Averse	Brand Protection	License Protection	Fully Integrated
Strategic Logic	Utilize resources for high value business opportunities	Do minimum required in what is considered a low value added area	Do what appears right at the moment	Protect shareholder assets	Protect/enhance product branding	Insure continued operation and ability to develop new sites	Long term competitive advantage
Strategic Question	How far can we cut costs even if it involves some calculated risk?	How do we ensure absolute compliance?	How do our competitors handle this situation?	How do we ensure that nothing goes wrong?	How can we leverage our EHS position?	How can we get the agencies and communities to support our activities?	How can we minimize our EHS "footprint" and use of resources?
Business Statement of Strategy	Cut costs again	No fines or NOVs	"Environmental excellence" or other in-vogue value statements	Absolutely no screw-ups	Protect our image	Social responsibility	Attention to the triple bottom line
Source of Advantage	Low cost	Low cost	Flexibility	Low liability	Market share	Expansion capability, reliable output	Long term positioning within industry
Works Best in	Non-consumer product indus-tries using no toxic chemicals	Low profile, low resource intensive companies	Companies with no immediate, major EHS pressures	Government contract suppliers	Medical, branded foods, pharmaceutical products, consumer products	Resource companies, forest industry, chemical companies	Resource intensive industries
Duration of Advantage	Unpredictable	Unpredictable	Day to day	Long term	Sustained	Sustained	Sustained
EHS Risk Factor	High	Moderate	High	Very low	Low	Low	Very low
Performance Goal	Lowest cost	100 percent compliance	Follow the competition	No "problems"	Long term market dominance	Long term industry dominance	Zero discharge & impact, consume minimal resources
Sustainable Development Fit	Poor	Poor	Poor	Poor	Good	Good	Excellent
Occurrence	Common	Common	Very Common	Uncommon	Uncommon	Uncommon	Rare

lem that must be minimized. This "competitive neutral strategy" may, however, overlook potential strategic opportunities.

- Brand Protection — This strategy encompasses both a compliance and a risk strategy as a baseline and adds key components that will either protect or enhance product branding. The object is to provide consumers with the assurance that the products are pure and reliable, and the production processes are environmentally and socially responsible. Johnson & Johnson is consistently rated as one of the most trusted brands in America. They could never maintain this image if their factories were blowing up, their employees were getting sick or the EPA was issuing a string of notices of violation (NOVs). For brand name consumer product companies, such as Shell and Nike, the downside consequences of poor environmental or social performance are awesome.
- License Protection — This strategy is very similar to brand protection; however, it is not the products, but the corporate image as a whole that is key. Consumers may be clueless regarding whose steel is going into their refrigerator, but if a steel foundry is being built in their region, it had better be a reputable firm. Thus, much of the energy goes into community support and the health and safety of the workers. If the company is in need of permits, having an unblemished track record and a reputation for utilizing low emission processes comes in handy when negotiating with regulators or community activists.
- Fully Integrated — I purposely did not call this approach a "sustainable development" strategy, although it really is *the* strategy for sustainable development. All too many companies claim that this (or some similar sounding expression) is their strategy; however, if you go beyond words, what often is found is one or more aspects of a fully integrated strategy, but with essential areas overlooked. It's akin to the shiny new Ferrari with a used Geo Metro engine under the hood. Few get to look under the hood and even fewer know what a top performing Ferrari engine looks like.

The CEO may have this vague concept of sustainable development as a business objective but not fully understand all the ramifications and requirements. Their EHS staff may not have the depth and breadth to design and implement such a strategy. The public relations staff may spin the company's position based on a few strong programs, giving the external stakeholders the impression that the company is on the path to sustainable development. A fully integrated strategy is truly rare.

In some respects, we have all been contributing to the big lie — nice-sounding strategies that the Board of Directors nods in agreement to, when the real business strategy is much more direct and simple.

This point was driven home to me when we benchmarked with a firm which has a stellar reputation for greenness and corporate social responsibility. We quickly found out that their EHS manager was a novice and was struggling to keep ahead of the company's growing reputation. We wound up providing *him* with supporting information.

Selecting the Right Mix

Companies generally do not employ one "pure" strategy, but rather utilize a combination of one dominant strategy plus one or two others. Thus, a company may be risk averse and also have a particular focus on compliance. Another might have a minimum cost strategy, but also be interested in protecting its brand name or ability to maintain permits. Minnesota Mining and Manufacturing (3M) is a good example of the latter through its well-known Pollution Prevention Pays program. They were able to achieve a low cost strategy that also reaped rewards in brand name protection and favorable regulatory reviews.

In addition to the above six strategies, there is another I call the "Opportunistic" or "Do what appears right at the moment" strategy. In effect, it is a non-strategy and unfortunately, this strategy is all too often the one employed in many companies. Sustainable development might be the stated policy (what I call a fully integrated strategy), but the marching orders from management might change from year to year, depending on the CEO in charge, what the competition is claiming, budget pressures or the recent environmental track record.

Companies recognize that they can not change their business strategy every year or chaos will ensue, yet some feel perfectly comfortable doing this on issues requiring even longer-term focus. Thus, 3M may combine several strategies into a very sophisticated strategic plan, but their plan has remained consistent, focused and steady, not a jumble of the elements that vary over time.

Talking Strategy

It seems to me that everyone likes to talk strategy, especially consultants. (As an aside, I charge twenty-five percent more if I use terms like "contiguous synergy energizing a shifting paradigm of breakthrough networked alliances.") But the buzzwords have little meaning today. One of the first steps is to find out what business management thinks they want and then develop a strategic plan to either deliver this or make the business case why another strategy may be more favorable. Environmental managers unfortunately get caught up in the catchphrases and start believing their own B.S. "We employ a strategy of social responsibility in harmony with a sustainable future." Give me a break!

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To strategically manage EHS today, you need to employ the same methods that business leaders currently use. For example, General Electric business managers have used benchmarking to tremendous effect because they would gain insight into *new ways* of doing things. Sure, they examined what other world class leaders were doing, but they significantly altered and advanced these to fit the company's needs. Sadly, benchmarking is all too often used by EHS managers to justify the implementation or continuation of essentially identical programs. Benchmarking is only useful as a strategic tool if the opportunity is seized to learn new ways to do things. Far too many of the available books on EHS strategic management are nothing more than descriptions of programs (i.e., tactics) already in use today.

Business leaders spend millions on management consultants to provide insight into emerging issues and challenge the status quo within their companies. They recognize that if you don't have the basics correct (i.e., the fundamental strategy for their business) the game is lost before it even begins. In contrast, how often do EHS managers bring in outsiders to aggressively evaluate and possibly challenge their strategy? Not very often, based on anecdotal evidence such as a 1999 study of external advisory groups.[3] Only a handful of companies subject their strategies to rigorous independent review. Why? Constrained budgets — we don't have the resources. A review is unnecessary — we know what we are doing.

I don't think so. First, the most expensive program is the one poorly conceived and executed. Strategy is cheap in comparison. It's the implementation that is expensive. Business executives realize this.

Second, why do many of the best CEO's seek new insights and challenges? Jim Collins, author of the 1994 best selling business book, *Built to Last,* recently completed a five year research study of executive leadership in breakthrough corporations — companies that propelled themselves from mediocrity to excellence.[4] His research team found that the characteristics of what is called Level 5 executive leadership is personal humility and willingness to be open to new ideas. In effect, they were interested and willing to listen to the opinions of others.

One Size Does Not Fit All

In addition to a reluctance to seek a second opinion, I have frequently found internal disagreements over strategy choices in large, diversified companies. In effect, the various business divisions or groups can not agree over what direction should be taken.

For example, the corporate office of a large diversified multinational corporation has perused a compliance-focused strategy for the past decade. The EHS manager for one of the major business groups recognized that this may be appropriate for the overall corporation, but he needed to strategically modify this approach for his business group because of its absolute dependence on consumer trust and reputation. In effect, the business group should consider implementing a primary strategy of brand name protection with a secondary strategy of compliance focus.

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Unfortunately, the corporate office insisted — actually demanded — a "one size fits all" strategy, when, in fact, this does not have to be the case. As long as the company as a whole is not making headlines as non-compliant and irresponsible, other product-specific and focused strategies are possible. Needless to say, this situation was demoralizing to the business group EHS staff. The tragedy is that a more enlightened, business-focused strategy never received an evenhanded executive management review under the crush of the

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narrow-minded directive from the corporate office's VP of EHS. Listen to a second opinion? No way. It's the EHS equivalent of Albert Dunlap. "Chainsaw Al" as he was widely known, was the CEO of Sunbeam and the darling of Wall Street until his ego and insular management style ruined the company.

Conclusions

What's the best strategy? A clearly defined and consistent strategy — one that is not couched in politically correct terminology and one that may vary among the business groups. Minimum cost may indeed be the best strategy for some companies, as long as the threshold of corporate due diligence and social responsibility is not violated. The public relations people can still spin their magic, but all employees need to understand the central theme of what they are doing and why this approach is being used.

In some respects, we have all been contributing to the big lie — nice-sounding strategies that the Board of Directors nods in agreement to — when the real business strategy is much more direct and simple. We need to be straightforward and clear in communicating the strategy to employees and we must have the courage to hold it up to rigorous review by people who may very well bring additional insights and options. EP

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