

Corporate Environmental Responsibility: Adding Value to the Bottom Line

By Scott Freiburger and Janet McKenzie

Corporate environmental responsibility adds value to a business' bottom line. This may differ depending on a business' sector, size and culture: manufacturing-based businesses confront a wide range of environmental challenges, while small or service-sector businesses face a narrow range. Businesses of all sizes and sectors have improved environmental performance and realized a wide range of benefits from reducing waste to maximizing resource efficiency and improving product design.

In general, there are many costs of doing business, no matter the size or sector. When it comes to protecting the environment, a business needs to ask the question, "What is the cost of not protecting the environment?" For example, a company could spend \$1 on implementing environmental practices that could prevent a spill from occurring, while the same company would spend \$100 to cleanup and/or mitigate the spill. A spill can carry a variety of cost perspectives, ranging from the short-term clean up cost and long-term diminished productivity to the long-term effects to the community in terms of health issues and property values. In this situation, implementing environmental practices is seen as an investment rather than a cost. Businesses need to view environmental practices as a way to improve their bottom line, protecting them from additional costs such as cleanup, liability and loss of current and future business.

Pro-active companies are finding that business-led environmental management is good for the environment and good for business. For many companies, environmental stewardship is moving from government "push" to "business-led." As this change is occurring, pro-active companies are finding more instances where environmental improvement initiatives, beyond those which are required by laws and regulations, create significant business value and competitive advantage. Strategic forward-thinking business leaders recognize that the adoption of environmental management approaches is both valuable and necessary to sustain a business. These approaches are available to help optimize performance, improve environmental results and meet customer expectations.

Increased regulation, government policy and customer expectations are all forcing businesses to address the impact their activities have on the environment. Pressure to implement environmental management systems (EMS) has manifested itself in many industry sectors. For example, large corporations such as Ford Motor Co., General Motors, Honda, Toyota Motor Manufacturing, and Xerox are requiring their suppliers to obtain ISO 14001 registration and driving considerable interest in environmental management systems. Whether

you're in the automotive, manufacturing, retail or a service industry, managing issues such as waste minimization, water quality and conservation, energy efficiency, air quality, pollution prevention, spill management and regulatory compliance can all help improve the bottom line.

Companies are increasingly investigating environmental management systems - either because their customers demand it or because it promises to offer opportunities for improvement. But what are the real benefits of an environmental management system?

Many companies began environmental management certification efforts in the mid-1990s due to increased global competition, customer awareness, and the potential benefits both in terms of bottom-line performance and operational efficiency. Businesses have been able to achieve cost-savings by fundamentally examining the design and production of existing and new products. Such a program provides businesses with information about more environmentally preferable processes or technologies that have the potential to result in big cost savings through waste reduction, energy efficient operations and reduced water usage. Businesses need to start to manage their environmental affairs, reduce the potential health and environmental impacts of their business, and comply with regulations; all of which serve to increase competitiveness and improve the bottom line.

ISO 14001 specifies the structure of an environmental management information system - commonly called an environmental management system or EMS, which builds on and adds to existing environmental efforts such as regulatory compliance, training, records keeping, emergency planning, and preparedness. An EMS integrates environmental considerations into and throughout all of an organization's activities, products, and services based on established business principles, allowing operations managers to address and continually improve environmental concerns based on the "plan, do, check, act" philosophy.

To put things into perspective, a business that adopts and/or implements environmental management practices will have a strong understanding of its environmental impacts and will be in a good position to prevent potential negative environmental impacts. A business that has a limited understanding of its environmental affairs may be exposed to risk in the form of unanticipated environmental events (i.e. spill) and their associated costs.

Growing evidence suggests that good economic performance is compatible with good environmental performance. For example, firms in the Dow Jones Sustainability Index (companies that incorporate environmental and societal concerns into their long-term economic investment strategies) outperformed the 2,500 largest capitalized companies that make up the Dow Jones Global Index (with cumulative gains in nominal market value of 85 percent compared with 57 percent) between 1993 and 2003. The positive correlation between

environmental and economic performance is especially apparent in industrial sectors with substantial exposure to environmental risk. This evidence challenges the traditional notion that complying with environmental regulations saps profitability and suggests that going “beyond compliance” can result in a competitive advantage. For example, firms with better environmental records may be more attractive to investors due to reduced compliance costs and a lower risk of future liabilities (Hopkins and Johansson, 2004).

Businesses must start viewing environmental activity as a profit rather than a cost and move from reactive to proactive management. A business that is able to implement an effective environmental management system may be able to reduce environmental waste and natural resource use, while at the same time improve the economic bottom line. Adoption of environmental practices and technologies can help a business with a competitive advantage over its immediate competitors, realizing that opportunities to derive value from the environmental practices will ultimately help to establish and sustain a position ahead of immediate competition. Once this is understood, the most effective approach to assessing a business bottom line when it comes to the environment is to implement a strategic environmental management system coupled with an environmental auditing and reporting process to measure and assess environmental performance with the ultimate goal of achieving a positive environmental bottom line.

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