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Vital to Business Survival: Assessing the Impact of Environmental Pressures

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Identifying and implementing changes in environmental policies are not simple tasks. Yet pressures from customers, shareholders and competition show that progress is required. Part 2 of Brandi McManus' four-part series "Growing a Green Corporation: Meeting the Next Great Disruptive Challenge of the 21st Century" details how to assess such pressures and act on them.

Assessing the Business Impacts of Environmental Pressures

Identifying, planning and implementing changes in your environmental policies are not simple tasks. Yet, clear pressures from customers, shareholders and competition show that progress in this area is required. So what do you do? How do you measure success? An increasing number of international companies are considering measurement on a "triple" bottom line. This is the measurement of three key metrics -- organizational success, environmental success and economic success.

Organization success includes human capital, or people, and measures fair and beneficial business practices towards employees or the community. These metrics can include: employee training, charitable contributions, community involvement and labor practices. Environmental success is measured by the practices that limit impact on the environment including energy management and manufacturing waste disposal.

Economic success is the profit that all businesses are accustomed to measuring. While measuring the economic or financial bottom line is tangible and easily monitored, social and environmental issues may seem more difficult to monitor and measure. Additionally, many environmental actions can even deliver a significant return on investment.

When it comes to understanding the true impact of energy and the environment, only limited data is available to CFOs. They still need that data translated into actionable information to make informed decisions about their business. This article will discuss the soft and hard assessment on a company's environmental practices.

Motivators and Consequences

Drawing on Daniel Esty's and Andrew Winston's book, "Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value and Build Competitive Advantage," the following table lists the top five environmental issues and their consequences.

Issue	Description	Business Consequences
Climate Change	Rising sea levels, change in rainfall patterns, more severe droughts and floods, harsher hurricanes, new pathways for disease	Changes in agriculture industry, ski resorts, insurance industry managing natural disasters, government funding, increase in regulation and legislation
Energy	Energy production damages environment, increasing global need of energy, increasing price of energy	Increase cost to manage operations and facilities, regulation and legislation, market perception, shareholder equity
Water	Rising population and growing economies in drier areas puts stress on quality and quantity	Companies seen to use too much water or damage quality will face political attack, public outcry, intense regulation and potential legal action
Biodiversity and Land Use	Plant and animal life that preserves the existing food chain	Locations of factories or stores, pharmaceutical industry research into plants and animals
Chemicals, Toxics and Heavy Metals	Chemicals in air or water pose severe public health risks such as cancer or birth defects	Regulation, cost of handling chemicals and disposal, tracking, legal liability

Table 1: Top Environmental Issues and Business Consequences

Click here for an enlarged view of the chart.

Those are the negative motivators for adapting to environmental responsibility. The positive motivators may be even stronger.

Here are just a few of the ways a company can benefit from addressing the environment:

Increased revenue and market share through:

- Public relations and market perception
- Potentially deploying new products
- Differentiating from competition
- Increased customer loyalty
- Recruiting top talent
- Retaining key employees
- Employee commitment and buy-in

Reduced expenses:

- Materials
- Energy

• Water use
• Product redesign
• Material re-use
• Packaging
• Transportation
• Disposal
• Waste handling
• Landscaping
Reduced risks and outcomes:
• Market risk -- Meeting legislation, avoiding fees and fines
• Balance sheet risk -- Liabilities, insurance losses, property values, financing
• Operating risk -- From hazardous materials, energy cost volatility
• Capital cost risk -From treatment and pollution control
• Investor support
• Avoid shareholder backlash
• Protect brand
• Increased market capitalization
• Decreased weighted average cost of capital
While this long list would vary from business to business and industry to industry, you should already be thinking of areas in your operation, product and facility that could be quickly reviewed and assessed to gauge the impact of environmental responsibility.

When Banks Pay Attention, We Should Too

Recent years have truly been filled with change in environmental responsibility. Globally, banks moved to outdo each other to support clean energy, climate change mitigation and green building. Europe's largest bank, HSBC, committed to donate $100 million over the next five years to environmental groups, and Bank of America directed $20 billion to green business opportunities. Citigroup, not to be outdone, has pledged $50 billion in investments to reduce carbon emissions.

In a flurry of commitments to donate, finance and support sustainable initiatives, the financial world has taken notice of this important trend. Shouldn't you?

Building a Business Case Around an Emotional Issue

It is a common sales theory that people make logical decisions for emotional reasons. We buy a car because we logically need one, but we make the choice based on emotion -- power, comfort, beauty. If no emotion were involved in the purchase and price was the only factor, we might all drive Kia automobiles, and there would be no Lexus luxury vehicles.

The environment is an emotional issue. You can test this by bringing up the topic at your next dinner party. Some people will be concerned about their children's futures or the impact that climate change will have on our economy. Some will be saddened wondering how we could have continued to let it happen, and others will flat deny that it is happening. But almost everyone will have strong feelings about it.

This makes it important for your company to understand its role in the world -- not just how you see it, but how your public sees it. This will help guide the hard decisions to be made, such as where to invest, why, and how much?

Some projects that fall into social responsibility will pay for themselves or generate revenue; for example, new products and services that promote environmental responsibility or energy saving facility improvements. Other projects are cost-neutral like recycling campaigns or moving from Styrofoam to coffee cups in the office. Some projects will require investment with a payback in market perception, competitive differentiation or future market opportunities. In 1998, the Swedish appliance maker Electrolux found environmentally friendly products sold in the market only accounted for 16 percent of sales but supplied around 24 percent of the company's profits. That is a business case that is good for the environment and good for the bottom line.

And last, entirely new markets, services and offerings will open up. An example of a complete new market resulting from the strain on the environment is carbon trading. At first, people laughed at Richard Sandor, president and CEO of the Chicago Climate Exchange. Sandor offered the right to buy and sell shares in the value of reduced emissions. Some people even argue the ethics of hedging on the environments the way that we would interest rates. Ethical or not, this market is approaching $60 billion each year in Europe and growing at a staggering rate, as Josh Harris noted in "Carbon Trading and the Bottom Line" at the Green CFO Conference last spring.

To build a business case for building a sustainable corporation, you must first ask some hard questions about what you are doing and what you are willing to do. For example:
1. Have you completed "the basics": recycling programs and doing away with Styrofoam cups?
2. Is your industry or company government regulated to make changes in your facilities or operations?
3. Do you have high brand exposure that would lead customers or shareholders to question your sustainability policy?
4. What investment (if any) are you willing to make to be environmentally responsible?
5. What projects or changes could be done quickly vs. three- to five-year programs?

The transition from thoughtless and wasteful action to deliberate conservation starts with education, a change in habits and shift in mindset. The upside is that these changes are not difficult nor are they expensive. Smart companies can use environmental strategy to innovate, create wealth and build a competitive advantage.