Environmental Challenges and Corporate Responses

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Environmental Concerns

The annual World Congress on Environment Management represents an opportunity to take stock of how public and private organizations are responding to various challenges and concerns. These range from local industrial pollution to developments such as global warming. Some of the delegates gathering in New Delhi for 2011's congress organized by the World Environment Foundation and India's Institute of Directors also reflected on how attitudes in the boardroom have evolved over the last half century.

Environmental problems are not new. Early Spanish explorers found the basin of what is now Los Angeles polluted with the smoke of Indian camp fires. What has changed is 'attitudes towards' certain problems and our 'tolerance of' them. What needs to change is the nature of responses. Environmental trends and developments should be seen as opportunities rather than problems, and we need strategic and collaborative action.

The need for greater understanding and appropriate responses has been recognized for decades. Rachel Carson (1962) put the case for the more responsible use of insecticides in her influential book *Silent Spring*. She argued they had been put into "the hands of persons largely or wholly ignorant of their potential for harm." Lack of understanding was also central to the critique of growth by Donella Meadows and her colleagues (1972).

Awareness does not always lead to action. Roll on the decades to 1992 and the Earth Summit in Rio de Janeiro. An international network form of organization was emerging to cope with the demands of operating in a global marketplace that needed to confront the environment as an issue:

- Attitudes and behaviours concerning the environment were of growing significance for internal and external relationships with various stakeholder groups, such as employees, customers, suppliers and business partners.
- Differences were emerging between the approaches and priorities of different groups. For example, collaborators from underdeveloped countries might have different views from colleagues in the developed world, and this could introduce an element of strain into relationships.
- The spread of globalizing network organizations brings them into contact with the regulatory activities of governments, and numerous governmental and non-governmental bodies with interests and activities relating to the environment.

Roll forward another two decades and there are now an increasing number of practical steps companies can take that have a beneficial impact upon the environment. For example, they can use support tools to make customers and consumers more aware of environmental impacts of purchasing decisions, and help them select less damaging options. This article examines some longstanding issues that boards need to address if they are to adopt policies that are positive contributors rather than cosmetic distractions.

The Depth of Environmental Concerns

A first challenge is to distinguish between crocodile tears and real commitment. At the time of the Rio Earth Summit the visible attention being devoted to environmental issues raised a number of questions, as follows:

- How much of the concern expressed is deeply rooted, or is likely to prove transitory? How much is hype?
- How real are corporate concerns? Are environmental issues assuming greater importance on boardroom agendas, just as in public debates?
- How aware are companies of the likely impacts of environmental issues upon their own activities and operations? What are the implications for different functions in public and private organizations?
- How well thought out are corporate reactions? Have clear goals been set and measurable objectives established?
- Who is, or should be, responsible for environmental policy, and what environmental policies are organizations planning to have?
- What are companies actually doing, and what should they do, to achieve their goals, objectives and policies? Are there gaps between rhetoric and reality? Are they "making it happen"?

To answer such questions a *Managing the Relationship with the Environment* survey had recently been undertaken. Respondents exhibited high levels of concern, while discriminating between issues:

- Significantly greater importance was attached to the 'external' physical environment rather than to the 'internal' working environment. Some companies appeared to be overlooking internal opportunities to improve working conditions as a result of a new-found preoccupation with the external environment.
- 'Direct' impacts of organizations' own activities upon the physical environment appeared to rank ahead of the 'indirect' issue of pressures from consumer lobbies. As one manager put it: 'We used to feel hassled by external critics [and] we were very defensive. Now the pressure is internal… we want to do something.'

There is also the 'groupthink factor' to consider. People can follow the crowd and think something is important without being overly concerned about it. One US chairman surveyed confided: "No one would dare say global warming is a good thing, but I love it. The garden grows and we save on heating costs."

Threats and Opportunities

The *Managing the Relationship with the Environment* survey revealed an overwhelming consensus that quality of life was a key issue of the 1990s, that environmental issues should be seen as opportunities rather than problems, and that all organizations should have an environmental policy. Suppliers that did not satisfy the environmental criteria being established by some of their customers faced the prospect of going out of business.

Large corporations appeared remarkably vulnerable. To respond to threats and seize opportunities, companies must monitor environmental issues in the business environment, think through their implications, and determine appropriate responses. One chairman pointed out: "Once an environmental issue passes to the business decision maker it tends to become general. We are in danger of becoming so general and unfocused that I cannot see any practical or workable solutions emerging."

Many open organizations view a challenge as an opportunity to enter into a new form of relationship. For example, additional regulatory controls on manufacturers represent opportunities for suppliers of components and materials that allow the new requirements to be satisfied. One managing director was emphatic: "There are things we have to do… the regulators will see to it. The fastest with the solution will get the business."

Securing commercial benefit from environmental concerns requires awareness of the priorities of actual and potential customers. As one director pointed out, "Why should the environment be any different or any more difficult? The technologies we use every day are complex enough. It's a question of listening, learning and flexible response".

Subsequent discussions, such as those concerning the Kyoto treaty on climate change, ensured that environmental issues remained on the corporate agenda. Ten years on there was still a diversity of views and practice. Increasingly companies sought direct contact with customers in their social environment in order to shape their experiences and build brand associations.

Many companies found that recycling waste saves disposal costs and can provide a cheaper supply of materials than an original source. USG, a manufacturer of wallboards, bought gypsum from operators of coal-fired power stations. The price of gypsum produced as a by-product was found to be less than half of that obtained from a quarry.

Dilemmas in the Boardroom

Making products that do not become quickly outdated with parts that can be easily replaced may allow them to be recycled. Directors often face dilemmas. Should one develop recyclable or throwaway products? Should one buy from the cheapest supplier or from the most environmentally responsible source?

Global warming means lower heating bills for some and inundation from rising sea levels for others. Despite an overall global consensus, individual predictions are fraught with difficulty. In certain places one effect might be counterbalanced by another. Companies like Xerox that examined recycling options found the impact of some remedial actions can create more problems than they solve.

Defensive and Proactive Approaches

More recent evidence suggests that more and less effective boards - winners and losers - react differently to what is happening around them. Losers are often unaware of impending challenges and requirements to change. They are not

alert, and do not anticipate or look ahead. If they wake up to what is at stake, they may have little time in which to adapt, even if they had the will and means of doing so.

Losers just hunker down. They make cosmetic references to environmental concerns in annual reports and accounts. They stick to what they know and feel comfortable with, and plough ahead regardless, hoping that any problems encountered will blow over. If they do take stock of where they are, it is generally infrequently.

Opportunities may be resisted if responding to them would require changed practices and behaviours. New requirements may be perceived as distractions until such time as they become so pressing and potentially lucrative that they can no longer be avoided. Some only act when legislators or competitive activity requires them to do so.

In contrast, winners have more acute and sensitive antennae. They are aware of what is happening around them and entrepreneurial. They view problems as arenas of potential opportunity. They take the initiative in shaping the future.

Winners identify and monitor economic, political, technological and other trends, and assess their likely impact both upon themselves and upon their customers. They then consider what, if anything, they should do in response. Such exercises are undertaken on a regular basis, and at least once a year. Resulting actions are subsequently reviewed and if need be challenged and amended as events unfold.

Because they read the road ahead, winners generally give themselves sufficient time to register, react and adapt. Changes are made quickly as and when they are needed. They are often implemented before they are imposed or otherwise formally required.

Proactive approaches can generate considerable goodwill. BP-Amoco acknowledged the risks of global warming ahead of other oil companies and announced its intention of securing specific reductions in carbon dioxide emissions over a defined period. Subsequent events in the Gulf of Mexico have shown that an environmental reputation that has been gradually gained can be quickly lost.

Schizophrenia in the Boardroom

Another challenge is environmental schizophrenia. People do not necessarily want to implement all aspects of corporate policies, just as there are laws which are not always enforced. Many senior executives still appear to be schizophrenic in relation to certain environmental issues. For example:

- As citizens they may be generally concerned about what they perceive as major threats to the world environment. They may be aware of the damage done by their own industry, and of the extent to which pollution can transcend national borders to become a global problem.
- However, as managers, their responsibilities may be limited to a particular operation within one country. While the external impact of any action they might take may be uncertain, and the benefits diffuse and shared, the internal costs can be real and particular to the individual company.

The existence of schizophrenia makes it difficult for some boards and management teams to portray a united front that is positively committed to the achievement of carefully thought-out and clearly-defined objectives. Driving a common approach to particular issues throughout an international corporate organization can overlook local differences. Attitudes and Governmental policies on an issue can vary greatly between countries.

Working with Regulators

Some companies appear to favour commercial activities that are consistent with sustainable development, while opposing specific regulatory measures, or the imposition of an implementation timetable. The extent to which responses can be left to market forces will depend upon whether a critical mass of companies acts appropriately.

To respond to particular public proposals, a company needs to assess the impacts of suggested measures. Likely obstacles and barriers to implementation should be identified and examined. Many legislators and regulators prefer 'workable solutions'. Sometimes they take account of corporate factors when drafting regulations, if notified early enough.

Within the market environment, individual companies that are genuinely concerned about environmental issues can respond quickly and flexibly, tailoring their policies and actions to their particular situation. In comparison, as pointed out by Friedman (1962), action by government can be tardy, cumbersome and indiscriminate.

Sound Bites and Shallow Responses

Many companies lack a deeply ingrained environmental mission. Others exhibit what has been termed "the lure of the simple". The action team competes on speed, focuses on 'vital few' priorities, and loves simplicity. Yet, many environmental issues are comparatively complex. Some reach a 'wall' when they realize the enormity and opacity of an issue:

- "The initial enthusiasm turned to disinterest when we became aware of some of the practical problems. Recycling can actually be more damaging environmentally than disposal. Do you react to today's clamour or tomorrow's realization?"
- "There are initiatives to demonstrate concern that we could publicize. But as for results, you can't change an industrial process overnight. We don't want to be accused of staging stunts."
- "I'm being pressured for results, but we are only a link in the chain. The public associates us strongly with the product, but the real environmental damage is done upstream. It takes time to build the relationships to tackle the problem, and when other companies are involved that's not something I can do at my level."

If a supply chain is involved, a company may be no more able to achieve a tangible impact upon the external environment than it can deliver all the value sought by a final customer. A company should identify the cross-functional and inter-organizational processes that deliver negative environmental impacts, and those needed to achieve significant improvements. People should have the performance support to act responsibly.

The Drive for Speed

While a threat such as global warming may be perceived as real and urgent, some responses may take longer to organize than others. Environmental initiatives should not result in pressure for a quick response driving out the long-term thinking that is required. Smart companies reflect and innovate. They shape the future by giving people new options and choices.

Today's craze can be tomorrow's memory. Some environmental policies take many years to have a significant impact. By the time sought outcomes are achieved, requirements may have changed. Will there be a backlash when people count the costs or become aware of the lack of achievement in relation to fundamental problems? Will they become bored? Cosmetic or inadequate responses can be counter productive. Enough noise may be raised to alarm some, while not enough is done to appease or deliver to others.

Effective boards can make a strategic and beneficial contribution by taking the time to assemble a comprehensive, complementary and coordinated set of initiatives that are likely to have a significant impact upon an environmental issue . Embracing all the parties involved and the various change elements required is the key to achieving significant and beneficial change.

Achieving a Balanced Reaction

Corporate responses should be appropriate and proportionate. Some boards experience cognitive dissonance. Having determined to "do something" they put excessive reliance upon a "silver bullet", or launch initiatives which make a marginal contribution, while missing opportunities to help customers to respond to environmental challenges. Evidence suggests that less effective boards:

- are attracted by panaceas and simple solutions;
- desire the speedy resolution of issues and tend to adopt the first acceptable solution;
- consider environmental concerns as a threat;
- endeavour to 'pass the buck' and avoid responsibility;
- keep a low profile, avoid publicity and limit discussion of environmental issues and related communications to the boardroom;
- react to external pressures and work in isolation to protect their internal and corporate interests;
- develop cosmetic responses and resort to spin in difficult situations; and
- behave in a defensive way when challenged.

In comparison, evidence suggests that more effective boards:
- are aware of the complexity of certain issues and endeavour to address root causes by whatever combinations of measures are appropriate;

- seek to understand the situation and explore options before selecting a course of action that is likely to stand the test of time;
- regard responding to environmental threats and concerns as a major business opportunity;
- assume responsibility for making a positive contribution to the environment;
- involve others in planning, communicating and implementing positive strategies;
- are proactive and work with collaborating partners to further their customers' interests;
- develop new and alternative approaches that generate goodwill and incremental income streams; and
- work with others to achieve both corporate and social objectives.

People in winning companies address issues rather than conceal, ignore or avoid them. Hence problems do not build up until they seem insurmountable. Adjustments over time – some small, others more fundamental – may allow them to cope with changing circumstances.

Questions for Directors and Boards

There are certain questions that directors and boards should address:

- Does your company monitor environmental issues in the business environment?
- Does it have an environmental vision, and related goals and values?
- Has the vision been communicated and shared?
- Is your company aware of the views of customers, employees, suppliers, business partners and other 'stakeholders' on key environmental issues?
- Has it carried out any form of SWOT analysis to examine strengths, weaknesses, opportunities and threats?
- Has it determined how these will impact upon its operations and activities?
- What does your company plan to do in response?
- Have clear and measurable objectives been derived from the vision, goals and values, and is there an agreed strategy for their implementation?
- Are there clear roles and responsibilities?
- Have 'vital few' priorities been established, and have likely barriers and obstacles been identified?
- Have people been equipped and empowered to take the necessary actions?
- Are they motivated to respond and deliver?
- Will the processes, linkages, collaborations and support tools needed to deliver appropriate corporate responses be developed?

Greater questioning and challenge is needed in many boardrooms, including in the public sector. Smart boards see environmental challenges as opportunities to develop new offerings to help customers and prospects adjust and adapt. Climate change is creating the biggest, and potentially most lucrative, business opportunity in history.