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# Environmental Risk Management: A Critical Driver of Sustainability

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Environmental risks pose a multi-dimensional threat to business that if ignored could consume an enterprise. The reputational risk alone of that "one-in-a-million chance" or "enterprise ending event" can no longer be ignored—ask BP. But beyond the negative ramifications of environmental risks is the often overlooked opportunity for business success that can result from sustainable business practices that propel a firm into the classification of best-of-breed. By implementing sound environmental risk management practices, companies can not only avoid negative environmental impacts, but can also take advantage of the positive benefits of new strategies, processes, and initiatives that improve the company in a socially responsible manner. This realization is where astute business leaders will eventually shine.

## Business Under Siege!

Implementing sound environmentally-conscious and sustainable business practices will be a requirement for global survival. This is not a moral argument; it is a sound business strategy that affects the bottom line while respecting customers, employees, citizens and the planet. Global sustainability megaforces[1] including material resource scarcity, energy & fuel, population growth, water scarcity, climate change, food scarcity and ecosystem decline, to name a few, all are or will be critical factors affecting executive business decisions. Do you have a "survival plan" for your business? Are you prepared for the unexpected? Can you lead the field in a sea of uncertainty? Welcome to the future.

Over the last decade, the emergence of corporate transparency, proper governance and reporting, and social responsibility as tenets of acceptable business practice have transformed the landscape of environmental performance as a business metric. In the preceding three decades since the passage of hallmark environmental legislation for clean water, land, and air, "command and control" strategies were the norm in the United States, and complying with environmental laws and regulations, thereby avoiding fines and penalties, was a reasonable corporate goal. Environmental professionals employed by businesses were tasked with "staying in compliance," which avoided the negative implications of environmental discharges and the impacts of accidental releases at their plants and facilities. Nowhere in an environmental manager's job description was the expectation that business benefits would emerge through environmental excellence.

A good example of this transformation has occurred at GE. Back in the 1970s and 1980s, when GE was known as General Electric and I was a young engineer and environmental manager, GE was focused primarily on serving the United States market with domestically produced products. Environmental issues were treated as scientific and engineering problems that were solved by technical environmental staff for the purpose of complying with applicable legal requirements. Those of us in the "old guard" worked very hard to protect the environment; however, our main goal was not to create positive environmental value, that idea was not a core business driver thirty years ago. Rather, our mission was to avoid creating a negative event that could adversely impact production. Compare that environmental strategy with GE's current "Ecoimagination" revolution, and you will see a company that is very different today than it was 30 years ago. Today, the company serves a global market with products that are manufactured around the world utilizing an international supply chain. The growth of GE's multi-billion dollar power and water business is a clear indication of GE's realization that emerging services with environmental and sustainability benefits can not only be good for business but also spawn the growth of a new business line itself.

## A New Future for Environmental Excellence

Today, the importance of understanding and predicting environmental impacts has grown, and the regulated business community is shifting from a strategy of simple environmental compliance to proactive evaluation of the uncertainties of environmental risks when responding to a broader array of customers, suppliers, and stakeholders. The importance of managing environmental risks and responding to social responsibility is on the radar of corporate leaders.

## Environmental Risk Management

Environmental risk management is the organized and systematic process used by risk managers to identify, quantify and prioritize environmental risks for action. This activity leads to a risk mitigation plan that reduces uncertainty and risk by generally following an "eliminate, manage or transfer" hierarchy.

Some environmental risks are easy to spot (e.g., potential physical risk to aquatic organisms that could occur if a nearby storage tank releases a hazardous chemical into the river) while others are much more difficult to predict. For example, consider the reputational and business continuity risks faced by a beverage company over water quality in its product from a facility in India; a lumber retailer over the origin and types of forestry products sold in its stores; an energy exploration company over its potential contamination of domestic water wells from hydraulic fracturing of shale to recover natural gas, etc. Each of these examples show environmental risks that had probably not been considered seriously enough by their respective companies and were most likely assessed to be on the fringes of reasonable threat distributions. Retrospectively, these perils are now understood to be major risk considerations that require a response and mitigation plan for the affected companies and their industrial sectors. In this way, environmental risks, including health, safety and social risks, are driving new sustainable practices that are now considered not just "good for business" but a requirement for business survival.

From raw material availability, selection and consumption, through the vulnerability of complex global supply chains to cradle-to-cradle lifecycle analysis, environmental risks and potential consequences are being considered in business decisions around the world. Whereas environmental issues in the past were generally associated with the direct impacts of discharges, emissions and accidental releases, today's environmental risks include the a much more strategic approach covering economic, environmental and social implications of all aspects of business activity that are under the direction of executive management.

Reporting of environmental, social and governance (ESG) activities by business is also becoming more main stream and in some cases is required by the U.S. Securities and Exchange Commission (SEC) financial reporting requirements or the requirements of other regulatory agencies. Businesses can now be instantly categorized as dirty or clean, responsible or irresponsible, sustainable or unsustainable regardless of the facts surrounding an incident and the verdict can be posted to the blogosphere around the world.

## Business Benefit From Sustainable Practices

Although it would be naïve to believe that all businesses actively embrace environmental protection as an obligation or sustainability as a business requirement, there is growing evidence of the business connection between superior ESG performance and overall business success. The number of major businesses that have recognized their environmental responsibilities by employing new and effective sustainable business practices to avoid legal, regulatory and now reputational risk is growing evidence of the shift in corporate management and shareholder thinking.

Chevron's latest "Human Energy" campaign and ConocoPhillips' "PowerinCooperation" campaign are two good examples of this recognition. Also, Southwest Airlines Chairman, Gary Kelly, stated just this April that "Southwest is committed to the triple bottom line of Performance, People and Planet…." Mr. Kelly also stated the company's "philosophy that environmental decisions also make good business sense."[2] Unfortunately, BP's "Beyond Petroleum" efforts were noble but severely crippled by the Texas City refinery explosion and the Gulf of Mexico oil spill, showing how quickly good intentions can be derailed by one misstep.

## A Formula for Sustainable Success

In a global economy, the opportunity exists to truly create value for the enterprise and the bottom line. Risk quantification has been elusive but we are getting better at proving to skeptics that indeed there is a direct monetary correlation between the implementation of environmentally and socially responsible practices and stakeholder value. Clearly the cost of capital and stock price can be a direct reflection of environmental and sustainable practices.

To maximize performance, a company needs to recognize the convergence of risk management, innovation, product stewardship, and sustainability. By integrating sustainability and environmental risk management[3] as shown in the graphic below, companies can achieve a competitive advantage over their competitors, not only by avoiding the high profile disasters that can destroy a company, but also by developing the improved and sustainable programs, processes, and products that ultimately meet the company's core business objectives while satisfying its customers and stakeholders, and protecting the planet.


The Formula for Sustainable Success

## End Notes

[1] KPMG International, *Expect the Unexpected: Building Business Value in a Changing World*, 2012
[2] Southwest Airlines, Spirit Magazine, *Evolve, Southwest's New Interior,* April 2011
[3] IFAC, *Sustainability Framework 2.0*,March 2011

## About the Author

Stephen J. Myers, CEP, CPEA (smyers@myersenvconsulting.com) has more than 30 years of engineering, environmental management and business expertise in industry and consulting. He is the Founder and President of Myers Environmental Consulting, LLC (www.myersenvconsulting.com), which specializes in providing strategic and operational expertise to clients regarding the convergence of environmental performance and business success. Steve is a Certified Environmental Professional, a Certified Professional Environmental Auditor and a licensed property and casualty insurance broker. He holds a B.S. degree in Chemical Engineering from Lehigh University and a M.S. degree in Environmental Engineering from Rensselaer Polytechnic Institute.

**Photograph:** Business by Ilco, Izmir, Turkey.