

The Environmental Challenge of Going Global

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Conventional wisdom holds that as transnational companies expand into new sites and markets, they leave behind North America's and Northern Europe's stringent environmental, health, and safety performance requirements. The reality is quite different. Leading transnational companies have known for some time that sound EHS performance is vital to success wherever they operate. Host countries expect the best from firms with global resources. The financial community is very sensitive to the risks and liabilities of mediocre environmental performance. Advocacy groups don't hesitate to hold companies accountable for lapses in EHS practices wherever they occur. And consumers – especially in Europe – can be motivated to punish companies at the cash register when they perceive them as environmentally irresponsible.

When transnational companies first took the measure of the global EHS challenge, many took steps to review and revise their worldwide corporate policies (see „Transnational Corporations and Global Environmental Policy,“ *Prism*, First Quarter 1994). Now, as companies become more familiar with the ongoing reality of managing EHS performance globally, they are applying these standards in the light of newly won insights and best practices.

The Challenges to Industry

Our experience suggests that major transnational corporations in a range of industries face similar challenges in managing EHS globally. These challenges include split-level expectations, public scrutiny, and demand for consistent performance and business effectiveness.

Split-Level Expectations. Many of the countries into which transnationals are expanding have extensive EHS regulations on the books. Often – in the former Soviet Union, for example – these regulations may include stricter standards on matters such as site contamination and emissions than those in Germany, the Netherlands, or the United States. In other cases, as in some Latin American countries, the standards may be borrowed from existing U.S. or European regulatory codes. Transnationals have found, however, that under these regulatory schemes, compliance expectations are often very different for themselves than for domestic firms. While much is expected of the transnationals, who are seen as technically and financially equipped to achieve high environmental performance, much is overlooked among domestic firms.

Public Scrutiny. Just as officials in developing countries are increasingly aware of the EHS requirements and expectations transnational companies meet in Europe and North America, consumers and advocacy groups are increasingly paying attention to how these companies operate worldwide. In a number of instances, nongovernmental organizations are working with local communities and officials in developing regions to help them use political processes to ensure that environmental performance requirements are part of business deals with transnational firms. These organizations are deeply skeptical about transnational companies' global EHS commitment and performance. Any company that takes pride in its EHS record or promotes it at home should be certain that its operations anywhere in the world can stand up to public scrutiny.

Demands for Consistent Performance. Worldwide EHS standards and policies have become common among transnational corporations. The challenge now is to strike a balance among competing priorities – especially in energy, chemicals, pharmaceuticals, and other industries that have undergone corporate downsizing, restructuring, and decentralization. Boards of directors and senior management need to be certain that, in newly decentralized structures, their companies' EHS performance continues to provide long-term worldwide protection from liability. At the same time, heads of the businesses and regional managers want flexibility to adapt quickly to competitive shifts in local and global markets, and they need assurance that corporate policies support business and financial targets while minimizing risk.

Demands for Business Effectiveness. Corporate approaches to environmental, health, and safety issues must make business sense as well as EHS sense. Internally, EHS managers are being challenged to link EHS performance issues to the business matters that take priority with most line managers. Externally, companies should be prepared to negotiate with officials and other stakeholders in terms of risk-based approaches that provide cost-effective solutions to EHS problems.

Best Practices

To address these challenges, leading companies have developed a number of best practices. Following are some examples.

Know what your values are. Companies with strong internal cultures find it much easier to sustain environmental, health, and safety controls worldwide. Robust corporate values provide a consistent basis for negotiating with local regulators, maintaining a consistent approach across diverse local standards, and building trust with stakeholders at home and abroad. Environmental values are well-established among leading

multinationals. Conoco, for example, believes that considerations of sustainability must drive future development and operations, especially in fragile or sensitive environments such as rain forests and tundra.

At Alcoa, six core values – including a commitment to environmental, health, and safety excellence – help shape the company’s decision-making.

Applying strong corporate values to specific real-world industrial situations is not always simple. Alcoa’s company policy mandates that its facilities everywhere meet or exceed the requirements of local law and of internal company standards, which, in many cases, are stricter than regulatory standards. In some instances, this approach has compelled the company to weigh the environmental benefits against other social benefits of a specific investment. What should a company do when a facility provides otherwise scarce jobs and income to local residents but cannot rapidly be improved environmentally without capital costs that would make it noncompetitive? Environmentally, the idealistic decision may be to shut the plant down. Economically and socially, the benefits may be greater if the plant keeps operating. One solution is to spread the environmental investment over a period of years, so that production costs remain competitive, jobs are retained, and clear progress is being made toward a higher standard of environmental performance.

At Novartis, the life sciences company created by the merger of Ciba and Sandoz, worldwide EHS standards are based on Swiss, European Union, and U.S. models, according to Dr. Kaspar Eigenmann, Head of Corporate Health, Safety and Environment. Novartis finds that adhering to these standards seldom requires the company to back out of a venture. Instead, when problems have been identified at one of its partner facilities, Novartis focuses on improving environmental performance. To make this approach work, Novartis looks for partners that share its view of environmental issues and are prepared to apply Novartis’s standards.

Integrate EHS in your global growth strategy.

One EHS activity that has long been a part of transnational business procedure is environmental due diligence assessment of acquisition targets. Dr. Max Kogelnig, Technical Director, Environment and Safety at Solvay, the Belgian multinational chemical and pharmaceutical company, indicates that Solvay requires at least a Phase I due diligence assessment for all acquisitions of industrial property. For many acquisitions where significant contamination is suspected, Phase II sampling for soil and groundwater is conducted. These assessments are also used as a basis for establishing environmental improvement action plans.

These activities cover now-familiar aspects of the total potential risk and liability picture for a project. A next step for some companies is to integrate risk-based approaches to environmental, health, and safety issues into business risk analysis and decision-making. One initial effort in this area has been made by Scotford, a U.S. importer and distributor of petrochemicals and a subsidiary of Shell Canada Chemicals Company. Scotford decided to expand its distribution and sale of monomer styrene throughout the United States. The company used a study of the EHS risks of various transport options in its present operations to obtain a baseline understanding of potential risks in future, expanded operations. Scotford then integrated semi-quantitative comparisons of these EHS risks in various transport alternatives with business-related factors. The company used the results of the integrated analysis to incorporate EHS risk thinking in major long-range strategic planning.

Overall, however, companies could be doing more to include EHS issues fully in their planning for expansion. Most of the time, technical and financial staff members review new projects first, and EHS staff contribute their review only later, after many parameters with EHS implications have already been set. To include EHS thinking earlier, companies will need to change mindsets about EHS matters among business and technical staff, a shift that EHS staff must help to drive. Conoco is approaching this challenge by decentralizing many of its EHS functions and establishing a five-member worldwide project group whose mission is, in part, „to get Safety, Health, and Environment staff in on the ground floor with new projects,“ in the words of Dennis Parker, the company’s Vice President for Safety, Health and Environment. Conoco’s operational managers give the new approach favorable reviews.

Put performance first. Many in industry believe and hope that performance-oriented environmental regulation and management will increasingly displace the command-and-control approach to environmental protection. Choosing their own route toward regulatory standards, companies are often able to use cost-effective technologies and approaches, freeing up resources that can be applied to other EHS priorities.

In terms of global expansion, a focus on performance gives companies an opportunity. In many countries, environmental, health, and safety regulation and enforcement are still evolving. When transnational companies negotiate performance-based approaches with regulators and then excel at meeting agreed-upon standards, they build credibility not only for themselves, but for the performance-based approach.

A performance-based focus also means accepting – within reason – host country expectations that ventures backed by transnationals will set an EHS example and perform at a higher level than domestic firms. Benefits of this „high road“ strategy include access to important natural resources, the opportunity to set the standard and

influence external and domestic firms to come up to the same level, a more secure franchise to continue operations long-term, and a better image worldwide.

Several years ago, Conoco needed to weigh risks and benefits to the company's image while deciding to go forward with the Polar Lights project in northern Russia. To go forward, Conoco would need to build a pipeline system to connect Polar Lights with Russia's export pipeline system. Frequent and sizable spills in Russian pipelines in the Arctic and west Siberia have given these systems a bad reputation. Conoco decided that the opportunity to establish a system that would be a model of environmental performance was greater than the risk of being associated with poorly performing Russian pipeline systems. Polar Lights is now up and running successfully.

A major international foods company identified a problem with wastewater at a dairy plant in Brazil. The company faced a choice between installing treatment options to meet European wastewater standards or then-current Brazilian standards. Despite the considerably higher cost of meeting European standards, the company chose that route for the dairy plant. Three years later, the wisdom of this decision was confirmed when Brazil adopted European standards for wastewater. The company not only adhered to its own values and standards, but got the jump on competing dairy facilities in terms of meeting the new requirements.

Chevron Overseas Petroleum Incorporated (COPI) „feels a responsibility to help raise the environmental performance of the industry in its host countries,“ says Jim Koerber, Manager, HSE, COPI. Chevron is convinced that host governments bring in western companies in part to pressure local companies to improve their performance. In Kazakhstan, as part of its involvement in the giant Tengiz project, Chevron has worked hard to get permission to use international environmental, health, and safety standards that are more appropriate for the company's technology than standards based on outdated Russian technology. In return, the company is committed to operating at a high level of environmental protection and accepts that local firms are on a slower track toward meeting the same level of performance.

Build partnerships. Any expert on expanding your business globally will tell you that local partnerships are vital to success. What, specifically, does that mean in the environmental, health, and safety arena?

On one level, building partnerships can mean taking a leadership role in changing the way EHS needs are met. At the Éco 1997 conference in Paris this February, David Buzzelli, Vice President, The Dow Chemical Company, reported that a group of transnational chemical companies that operate in Thailand are working with the Thai government and chemical industry to introduce the Responsible Care® program of the Chemical Manufacturers Association to the chemical industry there.

In energy ventures in the former Soviet Union, working together also extends beyond business relationships to other stakeholders. Ed Caldwell, Coordinator of Environment, Safety, and Regulatory Affairs, Exxon Ventures (CIS), comments that local scientists and institutes are key stakeholders in the environmental permitting process. The public respects them, and they are the ones who developed existing Russian environmental and technical standards. Companies that try to go it alone and disregard the contributions of experts in host countries may well be seen as arrogant and may encounter greater obstacles in negotiations.

Challenge your assumptions. Much of the current focus on environmental, health, and safety performance is on the process. Some transnational companies that think broadly about the environmental impact of their activities have concluded that, in the long run, their products affect the environment more than their processes. Terry Thiele, Associate General Counsel for AB Electrolux's North American subsidiary, White Consolidated Industries, notes that up to 90 percent of the environmental impact of the company's products occurs while they are being used. Electrolux believes that the greatest long-term opportunity for environmental protection will come from reducing the environmental impact of its products. For a worldwide company such as Electrolux, which ranks first or second in many of the markets in which it competes, that means understanding what consumers in widely disparate markets want, in environmental terms, from products, and giving it to them without losing any competitive ground.

Similarly, Mercedes has recognized that a clean product is more important from an environmental standpoint than a clean site. Mercedes believes that producing cars is now a relatively clean process – especially when compared with the environmental burden imposed by cars over their life. Seeking to develop an emissions-free vehicle, Mercedes is focusing on fuel-cell technology that generates electricity from hydrogen. If a car of this sort becomes commercially successful, the worldwide positive impact on air quality could be substantial in the long term. Meanwhile, the company continues to scrutinize every stage in the making of its products to further minimize environmental impact.

The hallmark of environmental thinking at Mercedes (and its parent company, Daimler-Benz) and at Electrolux is a willingness to break through the conventional time frame for environmental planning and strategy and take steps toward goals that may not be realized for a decade or more. In the global marketplace, where investments in new regions can take years to bear fruit, a long-term outlook is critical.

Anticipate Trends – Integrate EHS Thinking Now

If the current trend toward the lowering of trade barriers and the globalization of markets and industrial activities continues, companies that manage environmental, health, and safety performance at a consistently high level worldwide can expect to see their efforts pay off. In this atmosphere, companies are likely to see a continuing harmonization and convergence of EHS protection and performance standards. This will occur in part as regulations such as the European Union's Eco-Management and Audit Scheme and standards such as ISO 14001 spread through supplier networks, and in part to ensure that environmental issues don't become trade barriers.

To keep ahead of these global forces – and keep their environmental, health, and safety costs lower than the competition – companies will need to give much more attention to integrating EHS thinking across the product and process value chain. It will become increasingly expensive to tack on good EHS performance once basic planning and implementation is complete. The integration process is likely to work best for those firms that have learned how to work closely with line management worldwide and team with them on solutions to EHS challenges that make sense locally. Bringing the corporate vision down to ground level is challenging even for companies operating primarily in one country. It gets much harder on a global scale. The closer the business and EHS visions are to begin with, the less difficult aligning them will be.

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