

ISO 14001: Is It for You?

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The newest feature on the corporate environmental landscape is the emergence of voluntary standards for environmental management systems. The most prominent among these, because it is an international standard intended to harmonize potentially conflicting national or regional ones, is ISO 14001.

Developed under the auspices of the International Organization for Standardization (ISO), through the same process that yielded the ISO 9000 series of quality management standards, ISO 14001 exists now only as a draft document. Standards-setting organizations in the various ISO member countries, however, are currently voting on the proposed draft, and it is expected to be approved by mid-1996. In our view, although ISO 14001 is clearly not for everyone, companies should begin to act now as if this new standard is here to stay.

This means that the management of every company should determine the real value it could derive from attaining certification to the ISO 14001 standard, taking into account the company's environmental management capabilities and specific business situation. This value will vary significantly among companies.

What Is ISO 14001?

For many years now, companies have been conducting „audits“ or „reviews“ of their environmental performance, defined principally as compliance with applicable legal requirements at a given time, as well as conformance with internal policies and procedures. On their own, however, these audits or reviews did not assure company management that appropriate systems were in place to deliver effective environmental performance consistently, day in and day out.

Since the late 1980s, building on the early work of the Edison Electric Institute, the International Chamber of Commerce, and the associated companies of the Global Environmental Management Initiative (GEMI), consultants and corporate practitioners have been developing the concept of environmental management systems to help companies achieve their environmental goals reliably and cost-effectively. Starting in the early 1990s, reflecting the important concerns of external stakeholders, standards-setting organizations and other international bodies also began taking up the challenge of defining what constitutes excellence in corporate environmental management systems. The British Standards Institution developed a national environmental management system standard in 1992 for U.K. companies, BS 7750. The European Community issued a regulation in 1994 for all of its member countries, laying out a standard for such systems as part of its Eco-Management and Audit Scheme (EMAS). These standards are voluntary. They provide a formal process for certification of companies that elect to adhere to their specifications. To avoid competing national and international standards for environmental management, which might create confusion or even unintended nontariff trade barriers, the International Organization for Standardization drafted its own standard, ISO 14001 (see Exhibit 1).

The new ISO standard is largely the same as BS 7750 and will ultimately supplant that standard in the United Kingdom, once it is formally voted on this spring. At this point, ISO 14001 is seen by some in Europe as being less stringent than the EMAS regulation because, among other reasons, it makes no reference to a technology requirement and leaves out third-party verification of environmental „statements“ that companies are obligated to make available to the public. Like both BS 7750 and EMAS, the ISO 14001 environmental management system standard is voluntary and features a formal certification process to allow companies to demonstrate attainment. Because it is truly the only international standard for environmental management systems currently on the table, ISO 14001 is now receiving very close scrutiny from companies around the world wanting to know if they should implement it.

For most, the answer to this question is by no means unambiguous. With some justification, there is considerable skepticism on the part of many companies that already have strong systems for environmental management, and that find ISO 14001's substantive features unremarkable, except for their degree of formality and possible associated costs. Other companies, whose internal management systems are less developed, may need to do considerably more than the ISO standard requires if they are to manage their environmental activities appropriately. Both groups need to understand ISO 14001. The best place to begin is with the basic value proposition.

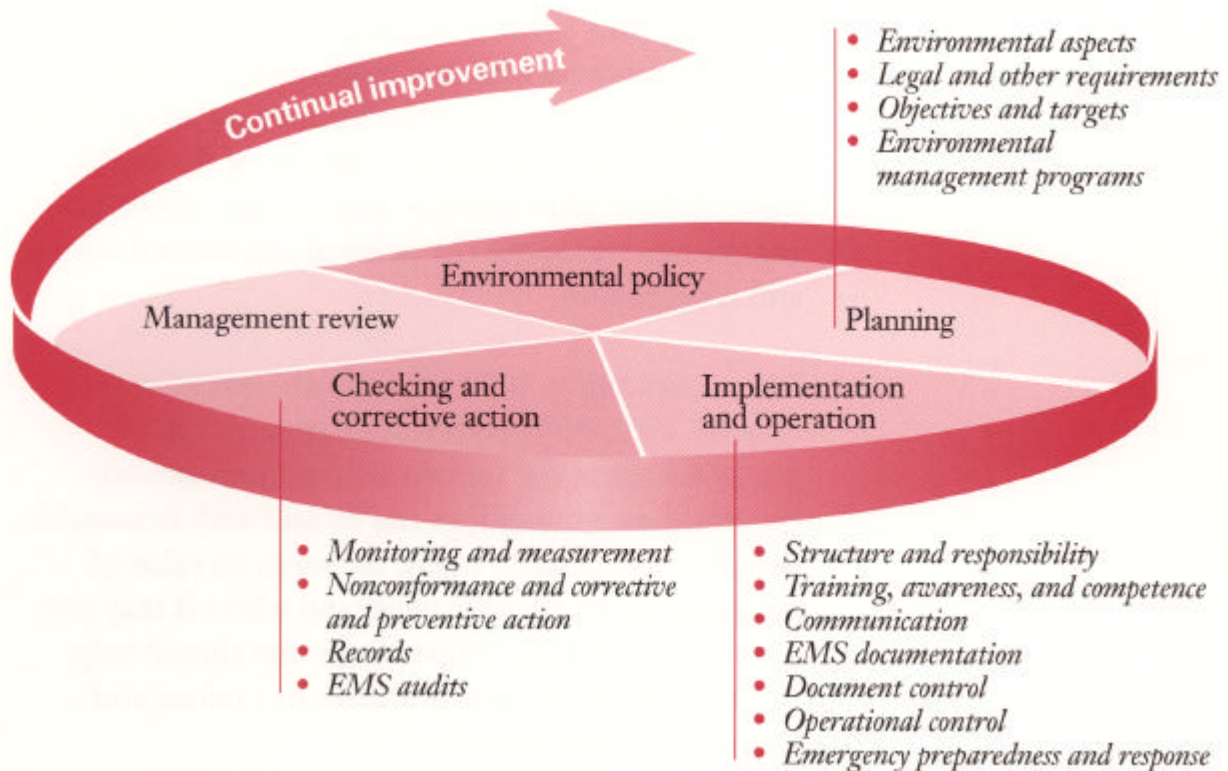
Where's the Value?

Companies looking to ISO 14001 certification as a possible solution to their environmental management needs first have to determine whether and how it can add value to their business. This is so for several important reasons. First, operating management is generally not asking for ISO 14001 – and in many cases is actively opposed to adopting anything that smacks of more formal functional requirements in the environmental area. Second, these same operating managers are convinced – for the most part without any hard data but drawing heavily on the ISO 9000 quality management analogy – that the effort, disruption, and cost required to move to

the proposed standard will be considerable.

Exhibit 1

The ISO 14001 Environmental Management System Model



As a result, much of the current debate regarding the desirability of gaining certification to the ISO 14001 standard comes down to a perceived lack of a clear, compelling „business case“ for doing so. For many companies, at least in the United States and Canada, this case simply has not been made, especially where there is no significant pressure from external stakeholders. In these two countries, the current situation regarding ISO 14001 is a strange mix of industry interest and awareness with real reluctance to commit to something that may not offer business value or advantage. In Europe and much of the rest of the world, some of these same business reservations may exist, but are more tempered by political and societal norms and expectations.

Much uncertainty still surrounds the question of how the ISO 14001 certification process will be implemented in the various national jurisdictions. Nonetheless, some things can be said with reasonable confidence regarding where the business value of attaining the standard may lie, and where it may not. Here are some basic propositions that should help guide management as it evaluates its options and chooses a course of action:

• *ISO 14001 by itself will not guarantee improved environmental performance.* The standard imposes no substantive performance obligation or level. It does stress „continuous improvement,“ but this injunction applies as much or more to the environmental management system as to actual performance. The current draft ISO goal-setting process can equally enshrine mediocre or ambitious environmental performance objectives, depending upon what the company wants to do, and either would satisfy certification requirements. It certainly does not „level the playing field,“ as some of its most ardent proponents have argued. Two companies can be certified to this same standard and be committed to achieving very different levels of environmental performance. Opposition to ISO 14001 in Europe has focused on this point, stressing the contrast with the EMAS regulation, which calls for performance levels tied to a technology-based standard (EVABAT, or Economically Viable Best Available Technology).

• *A strong environmental management system is essential for driving improved-performance.* If a company wants improved environmental performance on a sustained basis, it needs to have a strong management system in place. ISO 14001, like BS 7750 and EMAS, is intended to help companies systematically identify and appropriately manage their environmental obligations and risks. In this sense these various international and national standards can still be a part of the solution to the performance problem, but...

- *Meeting an international standard such as ISO 14001 may not be essential to having a strong environmental management system.* A number of large companies have already built strong, effective systems for managing their environmental, health, and safety activities, earlier than and without reference to voluntary international or national standards. Some of these companies have shown outstanding environmental results, and their particular management approaches have gained a wider industry acceptance beyond just their own operations and facilities. Most importantly, instead of creating separate, stand-alone environmental management systems, these leaders have integrated their environmental management processes wherever possible into their broader business processes.

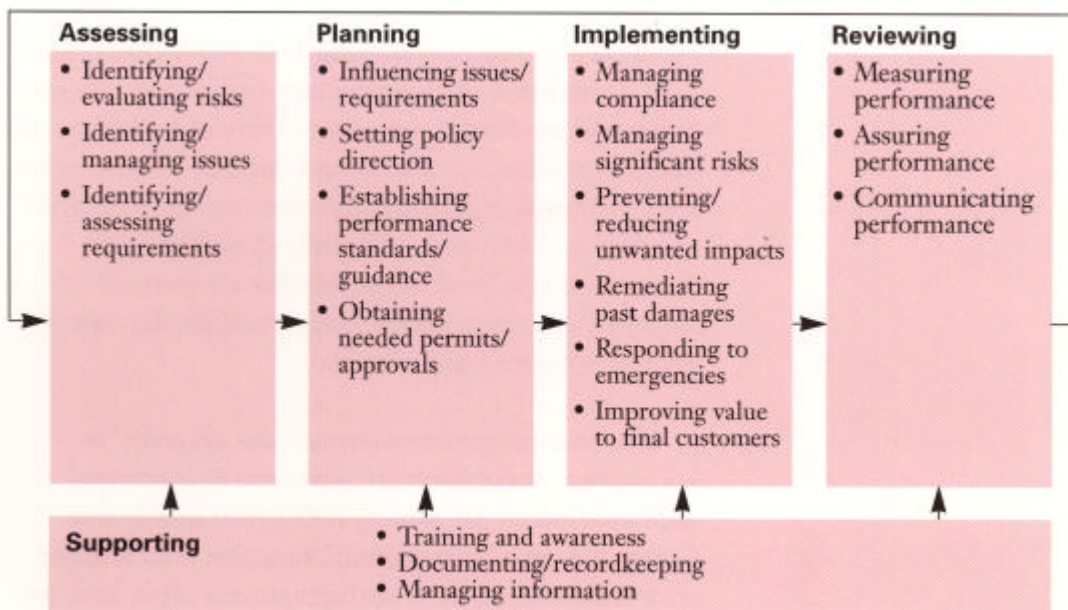
- *ISO 14001 is more likely to help advance the „trailing edge“ in corporate environmental management than extend the „leading edge.“* ISO 14001 does address important environmental management processes, but it has little if anything to say about integrating them into the way companies run their businesses. Instead, it appears to stress a functionally defined, largely self-contained „system“ in which the connections to business operations and decision-making are either faint or missing. Also, it is conspicuously silent regarding management of those areas in which proactive environmental efforts can directly add business value, e.g., Design-for-Environment tools, product stewardship, influencing the development of public issues and legal requirements, or communicating performance to key external stakeholders (Exhibit 2).

- *Obtaining value from ISO 14001 may not require gaining actual certification to the standard.* For those companies looking to strengthen their environmental management systems from a modest starting point, ISO 14001 supplies a workable, quality-oriented model to follow. And for those leading-edge companies that may already have strong environmental management systems in place, the ISO standard still provides one more useful external benchmark against which they can calibrate their own relative strengths and weaknesses. In either case, going the extra mile to satisfy ISO 14001’s extensive documentation and other bureaucratic requirements in order to gain certification may not be sufficiently valuable to justify the added work and expense. Companies may find it more attractive simply to continue their own self-improvement efforts and „self-certify“ to the standards or even retain an independent third party to attest that their environmental management system is „equivalent“ to or otherwise consistent with ISO 14001.

- *ISO 14001 certification is more likely to be valuable to companies with major export markets.* Significant exporters, especially companies seeking to sell their products and services to certain European and Asian markets, may want to give more serious consideration to obtaining certification to the ISO 14001 (or EMAS) standard. Interest in environmental management systems standards is generally stronger outside North America than within it (50 U.K. companies are already certified to BS 7750 and 60 companies in Germany are certified under EMAS). Thus, certification to one of these standards could prove necessary to meet competitive pressures introduced either directly by customers or indirectly through the supply chain or a multilateral lending institution. Knowing what your export customers want and expect is critically important.

Exhibit 2

Arthur D. Little’s High Performance Model for Environmental Management



• *National governments, when they are a major customer, can also be an important driver for ISO 14001 certification.* Governments are generally more likely than individual company customers or individual consumers to feel pressure to impose environmental management system certification as a condition of purchase. Since government agencies tend to buy in large quantities, a requirement by a key government customer could be sufficient reason to warrant a company getting ISO-certified. In the United States, both the Department of Energy and the Department of Defense have expressed a willingness to consider extending preferential buying to otherwise qualified suppliers that have environmental management systems certified to ISO 14001.

For certain businesses, like oil and gas exploration and production, national governments become key „gate-keepers,“ able to condition or even deny access to the country and the resources themselves. In the latest U.K. bidding round for North Sea oil and gas lease rights, for example, 10 percent of the evaluation points were awarded based on whether the applicant’s operations were certified to one or another of the existing voluntary standards for environmental management. A number of governments in Latin America and Asia Pacific are considering making ISO 14001 certification itself a condition of country entry for foreign oil exploration and production operators. Wary of building elaborate, expensive, command-and-control structures for environmental regulation, they see requiring the ISO standard as a low-cost, politically presold way to ensure a certain level of responsible environmental management among both foreign and locally owned natural resource industries.

• *Demonstrating environmental „due diligence“ to key external stakeholders can sometimes be a powerful additional motive for gaining ISO 14001 certification.* Companies in a „turnaround“ situation after a major environmental upset or embarrassment often look for tangible ways to demonstrate their renewed commitment to sound environmental management. ISO 14001 certification can provide a useful platform for communicating this commitment. Certification can send an important message not only to shareholders and customers but also to lenders, insurers, joint venture partners, and even non-governmental organizations in a position to help or hinder the company’s business prospects. Even for companies not facing such an extreme situation, gaining certification to the ISO standard may still be a valuable communications tactic. In recent surveys conducted by Arthur D. Little in both the United States and the United Kingdom, fully 70 percent of the companies responding indicated that certification to the standard „could be important“ for showing their due diligence to influential outside stakeholder groups.

• *Environmental regulatory agencies may ultimately hold the „wild card“ determining the business importance of ISO 14001 certification.* In the United States, the federal Environmental Protection Agency (EPA), as well as a number of state environmental regulators, have at least raised the prospect of exercising less intrusive oversight of companies’ operations in exchange for their voluntarily gaining certification to the ISO 14001 standard. While no regulatory agency has yet publicly committed to such an initiative (which is sure to face stiff resistance from attorneys inside the organization and from representatives of some citizen environmental groups), the formal barriers to their doing so are still remarkably low. No major legislative or regulatory changes would be required. The agency would need only a restatement of its enforcement policy, providing for differential treatment of companies (e.g., expedited permitting, reduced inspection frequency, reduced severity of regulatory fines or civil penalties) depending upon the certification status of their environmental management systems. Should the EPA or individual states at some point change their environmental enforcement approaches toward making ISO 14001 a de facto standard for desired corporate environmental management behavior, then companies that now view this standard as not adding value may need to reconsider in the light of possible regulatory advantages that could translate directly to the bottom line.

As these various considerations indicate, the potential significance to individual companies of the proposed new ISO 14001 standard for environmental management systems depends on who they are and what business challenges they face. There is no one right answer as to how companies should respond. The guiding principle should be to determine the value of attaining the standard for your particular business, relative to the costs associated with achieving it.

What To Do Next?

Given these complexities, companies that are looking to make an intelligent response to the challenge of ISO 14001 should consider a „game plan“ that addresses the following major elements:

1. *Find out what stakeholders need.* First you need to find out who is the „customer“ for ISO 14001 certification. Don’t assume that it is the same customer as for the ISO 9000 series of quality standards, because it likely isn’t. End-users of your company’s products or services have a clear interest in their quality. Whether they are concerned as well about your management of the environmental consequences of the product’s design, manufacture, delivery, use, and disposal is much more problematic. These things may have no impact whatsoever on their purchase or use preferences – or they may have great impact. If your customers tend to be processors of your product/service inputs rather than final consumers, they may have a somewhat stronger interest because of potential supply chain effects if you pass onto them excessive environmental impacts, costs, and possible future liabilities.

As noted previously, some of the most influential „customers“ for your company’s environmental management activities may be less obvious stakeholders, such as possible joint venture partners, lenders, insurers, local environmental regulators, and host country governments. The real issue in each case is whether these players also need or want or value some formal evidence of your environmental management prowess and whether ISO 14001 certification might be an effective way to demonstrate it. Your company cannot weigh these possible claims on its environmental management systems relative to their value or cost without first talking with the full range of potential stakeholders and truly understanding what is important to them and why.

2. *Carry out a strategic review.* Drawing on stakeholders’ views as well as your own sense of the company’s current and anticipated situation in its various markets, develop a strategy that focuses on those areas, if any, in which ISO 14001 could add value to the business. This determination of business value needs to be done from the ground up, market by market, product line by product line, facility by facility. A company does not get ISO 14001-certified; its individual operations and locations do. It is at this level, for example, that you can both identify special circumstances – such as export customer preferences, large government customer needs, country entry initiatives, local turnaround situations, business partner negotiations, and sensitive regulatory agency relationships – and consider the potential contribution of ISO 14001 certification. Again, attractive options in some cases may include steps short of actual certification, such as self-certification or a demonstration of ISO equivalence or consistency. The more disaggregated and business-specific this review, the more likely that your company will give ISO 14001 its due weight and make appropriate decisions.

3. *Conduct an ISO 14001 „gap“ analysis.* For those specific situations where ISO could possibly help contribute to future business success, evaluate the product line or even facility-level environmental management systems in place to better define how large an effort might be required to bring them up to the 14001 standard. From a strategy standpoint, you want to know how close your systems are currently to the ISO requirements, where they’re deficient, and what actions would be necessary to close any identified gaps.

The task itself is quite straightforward. A number of leading companies have already done such analyses or are currently conducting them. ISO 14001 can be broken down into at least 78 separate auditable components. Arthur D. Little’s experience in helping companies identify their existing gaps confirms that these determinations can be made fairly quickly and efficiently. The results of the assessment should tell you generally how much time and expense will be needed to make the transition to the ISO standard. However, until all the „rules of the game“ have been written in a particular country implementing the ISO 14001 certification process, there will likely still be some questions of interpretation regarding what it will take to remedy certain deficiencies, e.g., the extent of formal documentation needed in every case. But these remaining uncertainties should not stop companies from starting this important analysis now.

4. *Determine benefit-cost and implement selectively.* The final step is to weigh the relative benefits and costs in each situation of going to ISO 14001 and to make informed case-by-case business decisions based on the value gained for the enterprise. For companies with relatively strong environmental management systems already in place, the informed answer may often be that, in terms of value added, becoming ISO certified is not sufficiently attractive, given a negligible potential improvement in performance compared to a substantial cost of implementation. But for other companies with less well-articulated management systems or who are facing real environmental performance problems, ISO 14001 could represent a fairly cost-effective way to begin to make needed progress. In both cases, there may be special circumstances where product line or location-specific situations hold the promise of conferring significant benefits on the company if it chooses the ISO 14001 route.

The key to an intelligent corporate strategy for dealing with the new ISO 14001 reality is to treat it as a business issue. Environmental management has long been the preserve of functional specialists, and parts of the job will still continue to require important specialized expertise. But meeting the ISO standard raises potentially significant concerns, not only of functional interest but of broader business planning and decision-making. Business considerations – possibly affecting a number of key stakeholders both within and outside the company – need to be taken into account and ultimately balanced. This outcome can best be accomplished when line management, not just the environmental staff, takes the lead in fashioning the company’s response to ISO 14001. While early enthusiasts have likely overstated the benefits of ISO certification to companies’ environmental management systems, there still may be opportunities under the ISO 14001 umbrella for smart companies to gain business value. The time to be looking is now.

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