

Corporate Environmental Strategy

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Commentary & Analysis

Environment: The Next Boardroom Embarrassment?

Gilbert S. Hedstrom

Are today's environmental auditors, the ones corporate boards rely on for assurance that the house is in order, doing the equivalent of finding and reporting misplaced chairs on the decks of the Titanic? This may very well be the case.

Born in the wake of industrial accidents in the 1970s and 1980s (Bhopal explosion, the Exxon Valdez to name only two), leading companies in North America and Europe developed robust environmental, health and safety (EHS) audit programs. Established to spot and prevent areas of non-compliance at manufacturing facilities, EHS audit programs have matured and indeed become a fixture of corporate governance in most leading corporations. The results are routinely reported to the board.

But here is the rub. The fundamental risk profile of virtually all corporations is changing with respect to the environment. And according to a recent survey I conducted, most EHS audit programs are not keeping pace. In my survey of 25 leading global multinational corporations, 60% said board interest in environment is growing (in many cases significantly); 75% acknowledged the rapid growth

of non-facility EHS risks; yet only 5% said their audits of non-facility EHS risks have increased significantly.

Today, the largest risks may come not from mismanagement at manufacturing operations, but from sourcing raw materials before they enter your factories, or from customer use of the product years after it leaves your factory gate.

- Nike has found that child labor and human rights activities of its suppliers in Asia can make it all the way to the U.S. Supreme Court.
- While BP and Shell continue their green positioning, shareholder resolutions on environment and climate change reached new highs at ExxonMobil and Chevron-Texaco. Investors are demanding to know about the carbon risk of energy intensive companies (where recent studies show the up to 40% of shareholder value might be vulnerable).
- Ford reports that 97% of its greenhouse gas impacts come not from its own operations but from use of its products.
- 3M pulled out of a \$300 million Scotch-guard business because the key chemical ingredient was found to be persistent in humans, despite its operations being in compliance.
- Food companies beware: with the annual health cost of obesity only slightly below the annual health cost of tobacco, lawyers are spotting new ways to hold food companies accountable.

Would the environmental auditors have spotted these issues? Not if they were looking at compliance issues at the manufacturing facilities, where I estimate 95% of the effort is today.

As boards become more independent and accountable for corporate performance, they will be well advised to take a fresh look at the environmental governance system. Ultimately, business success will be inextricable from performance in the areas of environment and corporate responsibility, and a new model of board governance will drive the change. But some will learn the hard way, as Enron did.

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