

An Environmental Practitioners Whitepaper for Addressing a New Strategic Imperative



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A New Strategic Imperative for Environmental Practitioners: How the Best Corporations Are Creating Value in Converging Environmental, Societal, and Economic Performance

By,

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Executive Summary

Managing corporate reputation in today's volatile geo-political business environment is akin to assessing terror threats. You don't know who's targeting you, let alone when, how, where, or even why. All you know is that you need to be prepared. Today, even the smallest of missteps or momentary lapses in judgement can make headlines and lead to loss of corporate value and brand image in a moment's notice. The ability to anticipate and foresee challenges before they become material business issues is a competitive advantage for attaining business continuity, resiliency and performance.

At a Glance

Amid a risk-based culture now characterizing how we think about business, a new strategic imperative has emerged. The best companies are converging environmental and economic performance as their modus operandi, an evolutionary business model influenced by the following trends:

- **Creating Value from Perceived Risk.** The acceptance of environmental progress has changed and is more holistic. This next generation of environmental professionals will need a level of coordination support and internal discourse that is balanced and inclusive. Trust integrity and accountability will be stretched to achieve excellence.
- **A Focus on Innovative Solutions (Products, Systems, Partnerships).** Business lies at the nexus of innovation that will lead to solutions. Innovations and advancements in products, relations with communities and governing structures need to be linked if the societal trends and forces, which show resiliency and steadfastness, are to be addressed.
- **The Emergent Environmental Professional.** Characterized within industry by many titles (*i.e.*, Chief Sustainability Officer, Environmental Manager, Director EHS, Manager Product Stewardship), will need to comprehend operational excellence to product development, marketing, innovation, regulatory compliance, strategy, procurement, supply chain management, and business risk. These skills set are unique, but are necessary if the right stakeholders and resources are assembled to address the challenge of today.

Stakeholders ranging from NGOs, government, and consumers are placing more and more policy-price-and-perception pressures on business. In our fast-paced, data-driven, make no mistakes, winner takes all mindset of an economy, the corporate context (*i.e.*, who, what, how, when, and why) is being scrutinized and shaped by big dollar institutional investors as well as individuals with a smartphone and an agenda.

As the complexity and uncertainty of risks impacting business are causing concern and apprehension among CEOs. They are also wearing on the psyche of consumers and citizens. Risk is not ubiquitous, but as it gains prominence in daily life, it is influencing new ways of analyzing data, making decisions, and doing business. Risk, for all of its ambiguity and the insecurity it can create, is fueling a next generation of business professionals who must be more resilient, innovative, and strategic.

Drivers of Corporate Environmental Progress

1. Stewardship of global environmental challenges is good business and is a leading metric for long-term corporate value.
2. Environmental, social, and governance (ESG) indicators are now being factored into the valuation and financial performance of publicly-traded companies.
3. In the last two years alone, sustainable investing has had a significant surge to more than \$8.7 trillion under management¹, according to the US SIF Foundation serves as a strong signal that beyond compliance corporate environmental management is highly valued by investors, consumers, and increasingly, corporate boards.
4. Public reporting and transparency regarding environmental performance is a given.
5. A balanced or sustainable environmental future without an alignment of business, government, and society to develop new models of engagement, interaction, and governance is not possible.
6. Companies cannot change the past; they can create a better future. A future that is defined not by limitations directed by self-imposed or regulatory past, but with boundless vision and opportunity made possible through creative thinking, innovative technology, collective wisdom, and a sheer desire to work toward a common discourse.
7. Business has always been in a push-pull relationship with government (regulators) and the market (consumers); today, the role of business leadership is front-and-center.
8. The advancement of communications technology and social media has engaged and empowered citizens to get involved in the day-to-day operations of businesses and government.
9. The power of social media (and its immediacy) has become a significant factor in modern corporate and government relations.
10. Corporations, by necessity, have become more proactive in addressing the environmental concerns of the public.
11. Businesses have had to reimagine, redesign, and reengineer products and services that achieve quality and price targets, while aligning with (or competitively leading) new requirements for providing greater value with fewer resources, less cost, and lower environmental impact.
12. The above convergence of social forces has, for those businesses willing to innovate, provided the stimulus for creating new and responsive models, partnerships, and collaborations which yield solutions to some of the most pressing issues of our time.

New Ways to Manage Next Generation Corporate Environmental Strategy

1. For many global businesses, attaining environmental compliance has been a critical element of business operations.
2. Over the past forty-five years, the companies that have maintained a strong record of environmental (and health and safety) compliance, secured their license to operate and have been recognized. See Exhibit 1.

Exhibit 1. Forbes 2016 Top 30 Most Reputable, Sustainable, and Ethical Companies in the World

The World's Most Reputable Companies 2016 ¹	The World's Most Sustainable Companies 2016 ²	The World's Most Ethical Companies 2016 ³
1. Rolex	1. BMW	1. National Australia Bank
2. The Walt Disney Co.	2. Dassault Systems	2. Teachers Mutual Bank
3. Google	3. Outotec	3. The Rezidor Hotel Group
4. BMW Group	4. Commonwealth Bank of Australia	4. Natura Cosmeticos
5. Daimler	5. Adidas	5. Covenant Health
6. LEGO Group	6. Enagas	6. Empresa de Desarrollo Urbano
7. Microsoft	7. Danske Bank	7. Capgemini
8. Canon	8. StarHub	8. L'Oreal
9. Sony	9. Reckitt Benckiser Group	9. Schneider Electric
10. Apple	10. City Developments Limited	10. Henkel AG & Co.
11. Intel	11. Centrica	11. William E. Connor & Associates
12. Adidas Group	12. Schneider Electric	12. Tata Steel Limited
13. Nike	13. Coca-Cola Enterprises	13. The Tata Power Company Ltd.
14. Rolls-Royce Aerospace	14. L'Oreal	14. Wipro Limited
15. Michelin	15. Kesko	15. Accenture
16. Johnson & Johnson	16. Galp Energia	16. DDC plc
17. Samsung Electronics	17. Statoil	17. Illycaffè spa
18. Ferrero	18. Shinhan Financial Group	18. Kao Corporation
19. Nintendo	19. Novo Nordisk	19. Ricoh Company, Ltd.
20. Levi Strauss & Co.	20. H&M	20. Shiseido Co., Ltd.
21. Amazon	21. Marks & Spencer	21. PKN ORLEN S.A.
22. Nestle	22. Philips	22. Energias de Portugal, SA
23. Philips Electronics	23. DSM	23. Singtel
24. L'Oreal	24. Storebrand	24. Iberdrola, SA
25. Robert Bosch	25. UPM-Kymmene	25. H&M
26. Panasonic	26. Diageo	26. ABB
27. IKEA	27. BT Group	27. TE Connectivity
28. Colgate-Palmolive	28. DNB	28. Marks and Spencer Plc
29. Visa	29. ENI	29. National Grid
30. 3M	30. Biogen Idec	30. Delphi Automotive PLC

3. Local communities have favored those companies that continuously reinvest in their people and plants, and in ways that reinforce environmental protection.
4. Over the last 30 years, global companies have transitioned from command-and-control compliance structures to proactive-and-responsive structures whose programs now focus on leading indicators and trying to get out front and ahead of issues before they occur.
5. Maintaining a disciplined regulatory compliance programs is good for business; this has required investments in people, technology and systems, and new models of stakeholder engagement.
6. In the past five years, the following elements have begun to shape a next-generation compliance organization:
 - a. Consumers expect greater value from corporations and their brands.
 - b. Consumers want to be assured that corporate claims regarding environmental performance within their supply chains, operations, and product attributes are in fact, true.
 - c. While many companies may have successfully navigated regulatory compliance, a new challenge has emerged, fueled by the convergence of new technology, social needs, citizen scientists, the Internet and social media platforms.
 - d. The next-generation compliance organization must deal with: Perception, Reputation (Headlines), Citizen Scientists, Fear of Toxics, Communications (Speed of Info/Social Media).
 - e. The collection, management, and analysis of real-time data and data analytics has become the new benchmark for global companies seeking to be proactive and responsive to Government and Community/Social concerns.

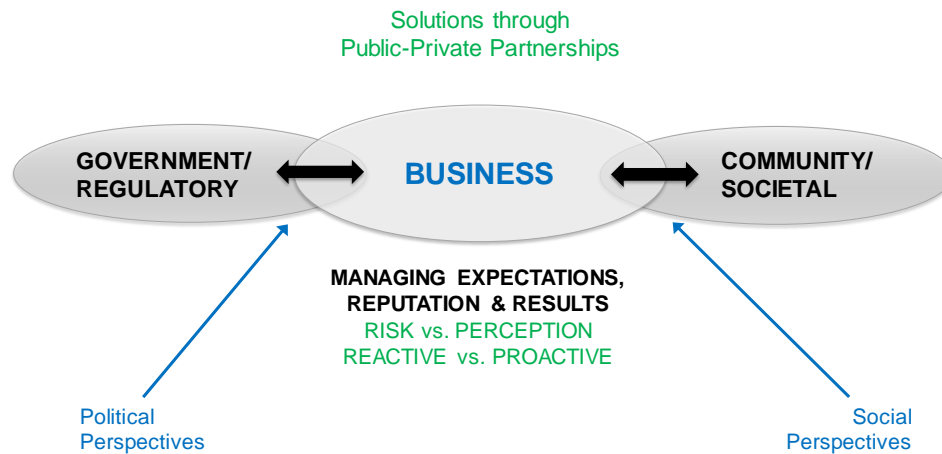
¹ Source: Forbes, <http://www.forbes.com/sites/karstenstrauss/2016/03/22/the-worlds-most-reputable-companies-2016/#4842edd24f95>

² Source: Forbes, <http://www.forbes.com/sites/kathryndill/2016/01/22/the-worlds-most-sustainable-companies-2016/#6ec1b771965f>

³ Source: Forbes, <http://www.forbes.com/sites/karstenstrauss/2016/03/09/the-worlds-most-ethical-companies-2016/#5172940573dc>

- f. This new generation of compliance systems lie at the interface of Governmental Rules and Community/Social Rules. Each is equally impactful on the ability of the businesses to achieve a social-and-environmental license to operate.
7. As shown in Exhibit 2, the leading edge compliance model for achieving economic and environmental performance is about addressing shareholder and stakeholder expectations simultaneously, and via public-private partnerships that mesh the regulatory-and-societal forces with the ability of business to adapt and respond with innovative environmental solutions.

Exhibit 2. Managing Risk, Creating Value
New Rules, New Players, New Expectations, New Mindset...



8. As the societal/community interface has progressed, corporations have evolved their corporate compliance structures to better sense, engage, and respond to this important change. Exhibit 3 outlines a sample of the elements of existing versus “Beyond Compliance” organizational models.

Exhibit 3. Elements and Benefits of Existing versus Beyond Compliance Environmental Organization Models

Elements of Existing Organizational Compliance Frameworks that are Efficient and Effective	Elements and Benefits of Beyond Compliance Organizational Frameworks that Focus on Shared Environmental Solutions
<ul style="list-style-type: none"> • Alignment with company culture and core values • Internal champions (Sr. Mgmt., BU's, other Corporate Functions) • Defining and implementing strategic priorities that create enterprise value • Leveraging organizational resources (management systems/data, talent/skills, etc.) • Operationalizing continuous improvement • Assigning accountability • Enacting a culture for leading vs. lagging indicators 	<ul style="list-style-type: none"> • Mitigation of risk • Cost reductions • Reputation protection & enhancement • Meeting/exceeding stakeholder (community, investor, customer, etc.) expectations • Deriving new partnerships, business opportunities • Fostering innovation • Driving operational efficiency/excellence, growth and profitability • Creating sustained value to the business

A Winning Blueprint: Leading Companies Are Transitioning and Transforming from Regulatory Compliance to Societal Compliance Strategies

For the past ten years, Convergence Mitigation Management (CMM) has worked with corporate, government, applied research and academic, non-government organization (NGO), economic development, and trade association organizations and stakeholders to help with the transition from regulatory compliance to social compliance. During this time, we've observed what started as a trend, evolved to a transition, and now embodies a transformation. The leading global businesses have adopted governance and operating structures integrated with risk management practices that enable a more preventive, proactive, responsive, and resilient culture of doing business in today's social compliance environment.

Through its business intelligence, corporate benchmarking, and advisory services work, CMM has interviewed and worked with a diversity of global businesses spanning every major industrial sector including: oil and gas, chemical, rail, automotive, pharmaceutical, utility, telecommunications, biosciences, defense and security, architecture and engineering, consumer electronics, aerospace, medical device and instrumentation, agriculture, mining, logistics, retail, and numerous others. CMM has conducted annual survey's and in-depth interviews with C-Suite executives and critical decision makers working in the areas of finance and accounting, sustainability, corporate risk, operations, facilities, environmental management, environment health and safety (EHS), real-estate, product stewardship, and executive management.

Trends over the past 10 years

1. Businesses have become more accountable to their owners, employees, and communities.
2. These businesses are increasingly aware of the ever-changing landscape and are committed to continuously improving their environmental performance.
3. Social advocacy has, amid advances in communications and social media technologies, begun to recalibrate the roles of business, government, and society. While challenges remain, the narrative driving society is not exclusively written by business or government. Social activists, citizen scientists, and conscious consumers are key influencers.
4. The convergence of social, market, and regulatory forces have required business to advance their compliance systems to be responsive to fast moving and more severe changes, tighter timelines and budgets, evolving regulatory structures, advancements in the adoption of technology, shifting priorities within and external to the business, requirements for new staff including hard-and-soft skills, and a new preventive, predicative, and proactive mindset in order to address challenges with partner-based solutions.

Transition within the Past Five-Years

1. Businesses have discovered that “cultural change” in the face of social activism and government regulation is not a threat.
2. Cultural change is an opportunity for extending the value of compliance as a proactive risk-management mindset.
3. Business has evolved and enveloped new nomenclature within their corporate value statements, strategic business plans, and corporate structures including: Sustainability, Product Stewardship, Ethics, Enterprise-Risk, Corporate Environmental Management, and so on. While the language used by each business is different, the

context is often shared, which includes being responsive to shifting customer preferences, aligning with stakeholder interests, and realigning the business to address social needs with innovative solutions.

4. Without new thinking, frameworks, or models of collaboration, the institutional frameworks that have enabled economic growth to date will continue to falter, causing continued social divide and unintended environmental damage.
5. Business organizations have already begun to pivot, from a focus exclusively on compliance, to a strategic framework and model of beyond compliance value creation rooted in innovation.
6. There is recognition for soft skills development (communications, leadership training, contract/project management, public speaking, negotiation skills, etc.)
7. Many corporate environmental management cultures have embraced a “Plan-Do-Check-Act” framework for continuous improvement. This framework has also proven to be an effective model in managing global risk.

Transformation: The Current State of Affairs

1. Environmental quality is critical as companies establish operations worldwide and are part of improving the local environment working conditions, living standards, and transfer technology creating local leadership.
2. The environmental, health and safety (EHS) function has emerged from the shadows of compliance, revealing that it is, an opportunity to creating value in step with social expectation and needs.
 - a. Re-branding EHS as a compliance group has proven to be an effective means to change internal perception, garner greater engagement, adoption and impact.
 - b. Aligning EHS goals, objectives, and systems with the culture of the organization and in-step with evolving management of change direction has proven productive.
3. Trust-based relationships are instrumental to attaining economic and environmental performance. During the engagement process with regulators, disagreement on proposed regulation or on existing regulations desired to be modernized does not mean the business and relationship should be excluded, mischaracterized, or dismissed.
4. Businesses have discovered that they do not have to choose confrontation or denial; rather, they can choose smart progress in partnership together with external partners.
5. The level of complexity and risk associated with doing business on a global scale is intensifying. The risk and reward of social media is a generational risk for the EHS professional.
6. Anticipatory planning on emerging societal risks is valued and can make all the difference on owning the narrative, earning trust, and managing risk and reputation for the company.

A Scorecard Has Emerged

Each year organizations including Newsweek⁴, Forbes Magazine, Corporate Knights⁵, Sustainable Brands⁶, and others evaluate, rank, score and report out on the world’s most trusted, admired, respected, and sustainable companies. Their rankings typically evaluate specific screens and key performance indicators⁷ (KPIs) including aspects such as energy, carbon, water, and waste productivity, diversity of the leadership team, employee turnover, innovation capacity, safety

⁴ Newsweek coverage of 2015 Global 100 Most Sustainable Businesses, <http://www.newsweek.com/green-2015/top-green-companies-world-2015>

⁵ 2015 Corporate Knights Global 100 Most Sustainable Businesses, <http://www.corporateknights.com/reports/global-100/2015-global-100-results/>

⁶ Sustainable Brands, “World’s ‘Most Admired’ Companies Also Are Sustainability Stars.”

http://www.sustainablebrands.com/news_and_views/leadership/mike_hower/world%E2%80%99s_most_admired%E2%80%99_companies_also_are_sustainability_stars

⁷ For example, Corporate Knights used 12 KPIs in their 2015 analysis of the Global 100 Sustainable Businesses, see, <http://www.corporateknights.com/reports/2014-global-100/key-performance-indicators-13903955/>

performance, pension fund status, CEO to average worker pay, among others. Such rankings are public and shape consumer perception to a point. But the rankings also have biases in the data and information they evaluate, as well as their methodology.

Other rankings, surveys’ and reports (Exhibit 4) on corporate business and sustainability performance have been completed in recent years by Accenture, Boston Consulting Group, Massachusetts Institute of Technology (MIT) Sloan School of Management, Deloitte, National Association for Environmental Management (NAEM), Pricewaterhouse Coopers (PwC), Ernst and Young (EY), and a diversity of social investment funds, rating agencies, universities, and other accounting, financial service, and stakeholder organizations.

Exhibit 4. Corporate Sustainability Research Survey’s and Reports

Reports
<ul style="list-style-type: none"> • 2016 – Planning for a Sustainable Future: The Ideas that Will Shape EHS & Sustainability Management in the Year to Come by NAEM⁸
<ul style="list-style-type: none"> • 2015 – The United Nations Global Compact-Accenture CEO Study, Special Edition: A Call to Climate Action, November 2015⁹
<ul style="list-style-type: none"> • 2015 – MIT Sloan, Boston Consulting Group, United Nations Global Compact Report, • Joining Forces: Collaboration and Leadership for Sustainability, Collaboration and Leadership for Sustainability¹⁰
<ul style="list-style-type: none"> • 2014 – Trends in Sustainability Reporting by EY, presented at the ISSP Conference, Denver¹¹
<ul style="list-style-type: none"> • 2014 – The Value of Sustainability Reporting by EY with Boston College Center for Citizenship¹²
<ul style="list-style-type: none"> • 2014 – Chief Sustainability Officers: Who Are They and What Do They Do?, A working paper by Harvard Business School and Miller Consultants¹³
<ul style="list-style-type: none"> • 2013 – Six Growing Trends in Corporate Sustainability by EY with the GreenBiz Group¹⁴
<ul style="list-style-type: none"> • 2013 – CFOs and Sustainability: Shaping their roles in an evolving environment by Deloitte Sustainability, Global Enterprise Risk Services¹⁵

Environmental Progress is Everyone’s Business

It is now understood that the well-being of the natural environment is essential to our economy. The earth’s natural resources enrich humanity. It is in the best interest of every citizen, business, and government to conserve natural resources, protect human health and the environment. Natural resources provide us with the building blocks for creating life-saving medicines, cultivating nourishing foods, and converting renewable resources into low-carbon electricity which powers our homes, businesses, and communities. Our quality of life, happiness, wealth creation, and longevity are intimately tied to the long-term vitality of the environment.

At stake is not just the CEO’s public image and job, but also that of the Board, the capitalization and market share of the company, and the reputation and image of the brand. Investors have historically rewarded those companies that consistently deliver earnings and growth. In that model, bigger has typically related to better. But as some of the world’s

⁸ Source: NAEM, http://www.naem.org/?page=survey_2016_trends
⁹ Source: UN Global Compact, https://www.unglobalcompact.org/docs/issues_doc/Environment/climate/UN-Global-Compact-Accenture-CEO-Study-A-Call-to-Climate-Action-Full.pdf
¹⁰ Source: MIT Sloan, <http://sloanreview.mit.edu/projects/joining-forces/>
¹¹ Source: Sustainability Professionals, https://www.sustainabilityprofessionals.org/sites/default/files/Breakout%20%20Haqler_Influences%20and%20Trends%20in%20Sustainability%20Reporting%20and%20Assurance.pdf
¹² Source: EY, [http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/\\$FILE/EY-Value-of-Sustainability-Reporting.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/$FILE/EY-Value-of-Sustainability-Reporting.pdf)
¹³ Source: HBS, http://www.hbs.edu/faculty/Publication%20Files/15-011_a2c09edc-e16e-4e86-8f87-5ada6f91d4cb.pdf
¹⁴ Source: EY, [http://www.ey.com/Publication/vwLUAssets/Six_growing_trends_in_corporate_sustainability_2013/\\$FILE/Six_growing_trends_in_corporate_sustainability_2013.pdf](http://www.ey.com/Publication/vwLUAssets/Six_growing_trends_in_corporate_sustainability_2013/$FILE/Six_growing_trends_in_corporate_sustainability_2013.pdf)
¹⁵ Source: Deloitte, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/dttl-risk-Deloitte-CFOs_and_Sustainability-2014.pdf

biggest (and once most respected) companies have grown bigger, the genetic code that made them great deteriorated. It's as if their core DNA, once defined by innovation, integrity, and sustainability has atrophied.

We've assembled this document to capture what we see as a trajectory of renewal, internal and external collaboration, and a growing comprehension that more interaction with society is a path to business success. Further, the U.S. and global Environmental Practitioner is attuned to these developments, and stand to further enhance the value of the contribution they bring to the success of the business.

ABOUT THE AUTHORS

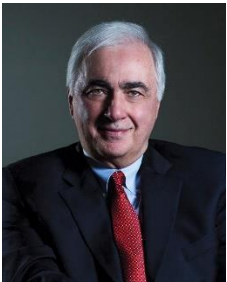
Convergence Mitigation Management (CMM) is a high-value business intelligence, strategy, and management consultancy providing custom advisory services to business, government, applied research, and non-governmental organizations. Learn more at www.cmm-insights.com.



Mark Coleman, President, CMM

Mark Coleman is the President of Convergence, Mitigation, Management (CMM) LLC, which provides custom business intelligence and advisory services for business, government, applied research, and non-governmental organizations. Mr. Coleman has advised hundreds of organizations in the areas of sustainability, risk, innovation, operational effectiveness, and business strategy. A recognized voice, business advisor and consultant on the convergence of sustainability, environmental stewardship, energy, technology, and innovation, Mr. Coleman has inspired audiences with his expertise, wit and wisdom. An award winning author, Mr. Coleman's second published book, "*Time to Trust: Mobilizing Humanity for a Sustainable Future*" was awarded a Silver Medal by the Axiom Business Books Awards in the "Business Ethics" category and was also an

Award-Winning Finalist in the "Social Change" category of the 2015 International Book Awards. *Time to Trust* followed his seminal first book, "*The Sustainability Generation: The Politics of Change and Why Personal Accountability is Essential NOW!*" Mr. Coleman holds a Master of Science in Environmental Management and Policy from Rensselaer Polytechnic Institute and two Bachelor of Arts in Environmental Studies and Geography from Binghamton University. Mr. Coleman resides in the Finger Lakes region of New York with his wife Aileen and two sons, Owen and Neal.



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Environmental and Energy, Government Relations, Diversity, Corporate affairs, and the office of the Chief Economist. Earlier in his career, in GM's Office of the General Counsel, he managed high-risk legal matters that impacted product decisions. Mr. Minano holds a Juris Doctor degree and is a member of various Federal courts, including the U.S. Supreme Court, and was an adjunct Professor of Environmental Law at the University of Detroit Law School.

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