

Building Business Value



Environment, health and safety programs have traditionally been geared toward managing risks and achieving compliance with regulatory requirements. Success was once measured by the extent to which a company avoided costly penalties, lawsuits and cleanups. But now, added incentive to improve EHS performance beyond “material compliance” is coming from the most important entity of all—the customer.

This article explores why customers are demanding stronger EHS performance across the supply chain, how customers are getting information about their suppliers’ EHS performance, the likely consequences of these new demands for suppliers and specific steps that EHS professionals can take to enhance their performance.

By Joe Bialowitz

Strong EHS Performance: An Added Customer Requirement

In this era of globalization, multinational companies have intricate buying and selling relationships. These companies are often themselves large customers near the top of a huge supply chain, procuring goods and services via vast networks of suppliers. The successful management of quality (including EHS operating standards) within supply chains is a major factor in the success of companies, especially those who depend on “just-in-time” supply and/or use hazardous materials.

Indeed, even if a customer’s own EHS programs have yielded important gains for the company, each supplier still has its own set of EHS challenges that can easily become the problem of the customer. For example, the recent European Union directive on the Reduction of Hazardous Substances, which limits the use of six specific hazardous substances in most electronic products, has resulted in major compliance costs to some electronics companies. They must now verify their suppliers’ compliance and in some cases redesign their products

using suppliers that provide less toxic components.

Furthermore, thanks in part to media participation in globalization, companies like Nike have learned the importance of gaining control over the labor practices of their far-flung suppliers. And in the semiconductor industry, the leading manufacturers have joined together to standardize minimum EHS guidelines for the equipment they purchase, because they want protection of employees, the environment and facilities throughout all stages of the equipment’s life: design, development, installation, operation, maintenance and service. (The primary guidelines are Semiconductor Equipment and Materials International S2 “Safety Guidelines for Semiconductor Manufacturing Equipment” and SEMI S8 “Safety Guidelines for Ergonomics Engineering of Semiconductor Manufacturing Equipment.” Intel demands that its suppliers comply with both these requirements and additional EHS requirements imposed by Intel.) Thus, large companies with mature EHS programs are increasingly managing their risks and protecting their reputations

by focusing their attention on the EHS performance of their suppliers.

A few of the largest manufacturing companies—including Canon, Daimler-Chrysler, Dell, Ericsson, Hewlett Packard, Lucent, Motorola, Nokia, Royal Philips Electronics, Sony and Toyota—now demand that all their suppliers (of both goods and services) implement some form of management system that ensures legal compliance and continuously improves EHS performance. Dell requires that its suppliers comply with both the ISO 14001¹ standard for environmental management systems and the OHSAS 18001² standard for workplace health and safety management systems.

Philips, which recently announced that all of its suppliers must have an EMS based on the ISO 14001 standard, offers a prime example of the rationale behind placing these new demands on suppliers. From their desks in the small city of Eindhoven in the Netherlands, a group of purchasers and environmental managers at Philips have decided to protect the environment and their company’s reputation by catalyzing environmental improvements in the operations of Philips’ 50,000



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suppliers around the world. This includes many suppliers in countries where environmental regulations are either weakly developed or minimally enforced. Of course, the environmental benefits of this decision are somewhat limited in the case of suppliers that have few environmental impacts, or suppliers so small that they provide goods and/or services primarily to Philips.

But if the supplier is an international shipper such as DHL, both the environmental impacts and customer base are considerable. In such a case, the environmental benefits demanded by Philips will be cascaded to the tens of thousands of DHL customers whose goods will be shipped via planes, trains, ships and trucks and stored in warehouses that are all likely more resource-efficient (and less carbon-intensive) than before. Consequently, just a few managers at companies like Philips might end up doing more to reduce greenhouse gas emissions than all the governments of the world combined. To be sure, individual governments have already taken steps to improve companies' energy efficiency and carbon intensity, but international

agreements addressing greenhouse gas emissions have thus far been implemented (via the Kyoto Protocol) only for major CO₂-emitting installations, not the transport industry or other "less polluting" industries.

Getting Information About Suppliers' EHS Performance

Customers are increasingly developing supplier codes of conduct, which require that suppliers (especially "first-tier" or "strategic" suppliers) go beyond legal compliance. Furthermore, customers are benchmarking the EHS performance of their disparate suppliers by using questionnaires to help determine levels of compliance to their codes of conduct. Environmental questionnaires typically request a description of each supplier's EHS management system(s), as well as specific information about risks and compliance issues (e.g., hazardous substances contained in their product) as well as key performance indicators (e.g., injury rates, CO₂ emissions reduction rates).

Customers can also use publicly available information to assess their

suppliers. For example, customers can consult with the findings of the many well-respected nongovernmental organizations that routinely publicize the EHS performance (or lack thereof) of major companies. Or, customers can look to the investment community, which now provides evaluations of companies' overall EHS performance, including their respective global climate change strategies, as part of the sustainability ranking process. Prominent examples of this are the Dow Jones Sustainability Index³ and the FTSE4Good Index.⁴ These indices, which include only the most socially responsible companies (selected using rigorous criteria), are used by not just the investment community but also by procurement departments, as a tool to identify companies that meet globally recognized EHS standards.

Finally, for suppliers in high-risk industries (e.g., those that are chemical-intensive) or locations (e.g., countries where child labor is used), or for any supplier that does not respond adequately to questionnaires, customers are likely to seek information by conducting an EHS audit of the supplier. Hewlett Packard's actions to

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date provide a useful example of how large customers are proceeding with their supply chain initiatives. Since introducing its supplier code of conduct in 2002, Hewlett Packard has acquired EHS performance data from all of its 50 top suppliers (accounting for more than 70 percent of HP's total expenditures), 13 of which (at 15 sites in Mexico and China) have been subsequently audited by HP staff.⁵

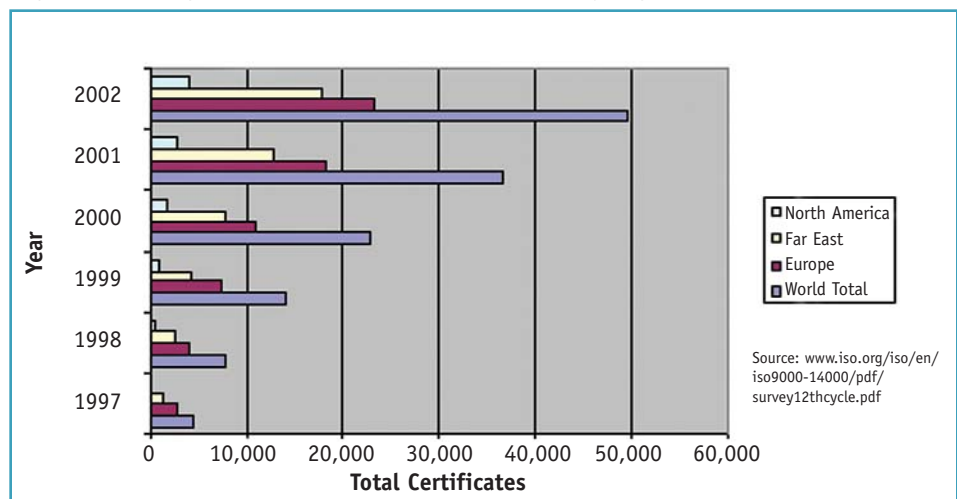
Potential Consequences of Increased EHS Performance Demands

If purchasing managers for large companies must now balance both cost and EHS considerations—and if they now have enough information to do so—the consequences for suppliers are clear. Suppliers will find that a growing number of customers incorporate minimum EHS requirements into supplier agreements, and any supplier that cannot meet these demands can expect to lose revenue. This goes for both new and continuing businesses.

The pharmaceutical company AstraZeneca provides evidence of the former, reporting that in 2003 it audited two “potential new chemical suppliers ... and at one of these, we identified the need for an improvement in [EHS] standards before any work could be commissioned.”⁶ And with regard to continuing business with existing suppliers, Philips states that in cases where a supplier’s “view of sustainability” issues does not align with Philips’ standards, “the overall approach is one of finding solutions through open and honest discussions with the supplier, but if no satisfactory solution can be found, suppliers can expect that this will affect the business relationship.”⁷ Similarly, AstraZeneca has stated that “the overarching principle is that it is our objective to increase suppliers’ awareness and seek improvements, rather than excluding suppliers based on poor Corporate Responsibility performance. However, if performance remains poor, we will take steps to place our business elsewhere.”⁸

Furthermore, even if a supplier meets a customer’s minimum expectations, preferred supplier status may now hinge on a supplier’s success at exceeding the EHS demands of its customer. Faced with a choice between two suppliers who are both cost-competitive, customers are indeed selecting the supplier

Figure 1. Existing ISO 14001 Certificates at Year End, By Region



with the best EHS program. A case in point is Hewlett Packard, which tells its suppliers: “HP does not require its suppliers to be ISO 14001 certified, or require its suppliers to use ISO 14001 certified suppliers. However, as part of an ongoing effort to select environmentally responsible suppliers, HP gives preference to existing or potential suppliers who have achieved ISO 14001 registrations.”⁹

Thus, suppliers that can show evidence of an environmental management system (and/or a health and safety management system aligned with OHSAS 18001) can often meet and exceed their customers’ demands. On the other hand, a supplier without a management system can be at a severe competitive disadvantage. This has no doubt contributed significantly to the recent explosive growth in the number of ISO 14001 certifications acquired worldwide. As Figure 1 indicates, nearly 50,000 organizations now hold ISO 14001 certifications, and this

total has been growing at a rate of more than 20 percent per year since 1998.

Finally, while a supplier with an existing environmental management system may be able to exploit this advantage over those companies without one, this company will still need to compete against other suppliers with such systems. The victor in the latter instance will be the supplier who has achieved the best EHS performance, as judged by the information acquired through questionnaires, third parties and audits.

Performance-Enhancers for EHS Professionals

When senior managers devote more attention to customers’ demands for excellent EHS results, this often leads to better integration of EHS functions with business functions. It also means that EHS professionals assume higher profiles. This presents EHS professionals


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with exciting, cross-departmental leadership opportunities. On the other hand, EHS professionals must be up to the challenge. Senior management continues to demand EHS efficiency along with effectiveness. To meet the challenge, EHS professionals should focus on proven ways of using EHS programs to build business value (see sidebar).

Performance is indeed the reality on which EHS professionals will be judged by both internal stakeholders (i.e., senior managers) and external stakeholders (i.e., customers, the general public, non-governmental organizations, governments and even future generations). However, perception also matters a great deal. Therefore, EHS professionals must

work with their companies' marketing and public relations departments to garner recognition for their achievements. They should also seek to scale up both performance and image by participating in coalitions and partnerships that help to leverage resources while raising their company's EHS profile. This means joining forces with governments, NGOs, industry partners and the financial sector to take advantage of available subsidies, resources, best practices and public relations campaigns. By working with multiple stakeholders, a company can use their internal EHS initiatives (including EHS management systems) to participate in the more systematic approaches (including region-wide EMSs, emissions

trading schemes and international initiatives to combat chronic diseases) that are truly needed to solve the biggest EHS problems of today and tomorrow. 

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Boosting EHS Value Within the Organization

By Glenn Fishler

1. Align the EHS function with your company's business objectives.

The first task is to identify key business metrics. Once the metrics are defined, align the EHS function to those metrics and learn to "speak the language" of the business objective. Look for ways to enhance and measure productivity in your organization and tie as many EHS objectives as you can to that metric.

For example, a second tier semiconductor fabricator identified wafer moves as their primary metric. Their goal was to optimize the number of times the wafer moved between production steps during each production day. After careful study, EHS and management understood that the number of emergency response team events had the greatest negative impact on the wafer moves of any EHS-related activity. The EHS objective became to reduce those emergency response team events per unit time. The result was a quantifiable increase in productivity that was tied to the overall business goal.

2. Simplify and make your goals achievable.

Too often EHS professionals have a long laundry list of complicated goals and objectives. Experience shows that by simplifying and concentrating on two or three manageable and achievable objectives within a reasonable

time frame, perhaps six months to one year, better results are produced. By focusing on a smaller number of goals, objectives are more often met, increasing EHS value (especially if you can tie objectives into your ROI model; see 3, below).

3. Create an EHS ROI model.

Creating a return on investment model for EHS further enhances the value of the EHS function in an organization. You can fashion an EHS ROI model like an income statement or balance sheet, trying to keep the returns quantitative, not just qualitative. Each EHS activity should have an ROI associated with it.


Blended learning for EHS training is a good example. Let's say 100 percent of your EHS training is now instructor-led. There is an investment cost to reduce that figure to your goal of 50 percent, with the remainder being Web-based training. If your return on that investment is a net improvement/overall operational cost reduction in training costs during the first year (and that can be quantified), then the savings you realize in subsequent years further enhance ROI—and EHS value.

4. Find a C-level or executive champion.

Typically, EHS professionals don't have dynamic leadership skills or the ear of corporate level executives (CEO, CFO, EVPs, etc.). This is most often due to lack of leadership experience and/or training. But to set EHS objectives that align with overall business objectives and to help push them

through the rank and file, EHS professionals need to create strong relationships and establish credibility with executives to help champion those objectives. These relationships can also help further your career, especially if that executive becomes a mentor. (For more information on working with C-level executives, see "Follow the Money and Save," *The Synergist*, July 2004, pp. 30–33).

5. Identify an external mentor.

While internal mentors can help build EHS value, external mentors can help build strong leadership skills, perhaps the most glaring chink in the EHS armor. Here are some important criteria to look for when searching for a mentor: (1) they should have EHS interest (but not necessarily expertise), (2) they have an interest in mentoring, (3) they have leadership experience and a successful track record and (4) they have experience leading staff-type functions in businesses similar to yours. Networking through local trade or industry associations is the best way to find a mentor. 

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