

Manager's Notebook

Preparing for an Uncertain Future - *Environmental strategic planning essentials*

By Richard MacLean

The very nature of environmental issues has grown much more complex: from local contamination to global impacts; from toxic hot spots to breaks at the DNA level; from pollution control to supply chain reliability; from regulations to voluntary product certifications, and so on. Strategic planning offers the best approach against being caught off guard, indeed to gain a competitive advantage. Here's how to go about it.

As I sit down to write this column, National Security Advisor Condoleezza Rice is being grilled by the federal 9/11 commission. Hindsight is always perfect when it comes to formulating politically-charged questions such as, "Which administration had the right strategy?"; "Would it have prevented 9/11?"; and "Who dropped the ball in executing it?" Of all the lesions coming out of this investigation, none is clearer than the fact that both the Clinton and the Bush administrations were mired in disconnected details and failed to link these warning signs into a cohesive, long-term, anti-terrorism strategy.

At the end of this century (or even decade), one might visualize a similar commission on what may have gone wrong with the global environment. In that hypothetical commission, similar words might be spoken: "For more than 20 years, the [environmental] threat gathered and America's response across several administrations of both parties was insufficient. . . . Tragically, for all the language of [environmental protection] spoken before [today], this country simply was not on a [sustainable] footing."

In the past, the blame game was almost exclusively directed at companies. Today, government policies and societal (i.e., lifestyle) issues are now drawing much of the flack from environmental activists. But don't think for a moment that companies will be off the hook.

You may be thinking after reading the preceding paragraphs, "Here goes MacLean's doomsday paranoia again – things are just fine and getting better." Well, maybe so . . . and then again, maybe not. Read the next few paragraphs and then decide if a better plan may be in order for your organization in these uncertain times.

Why a strategic approach?

The nature of health, safety and environmental issues is shifting gradually. Only recently has this change begun to capture business attention, in part driven by capital markets beginning to examine risks such as climate change on long-term shareholder value. Today's environmental concerns are more complex and involve systemic issues that cannot easily be addressed even through international treaties.

The political, legal and technological issues also are changing. Corporate governance failures have increased public distrust. Class action lawsuits are rampant and health effects are debated at the cellular level. Non-Government Organizations (NGOs) have more power and influence. “Voluntary” (but de-facto) market-driven initiatives have created new standards such as process and product certification programs.

What does this mean to companies? The pollution control and regulatory-centric strategies that were effective in the past may no longer be adequate to address these emerging trends. This new generation of issues will impact access to resources and global supply chains as well as influence construction schedules and time-to-market.

The Catch-22 dilemma is that cutbacks in staffs and belt tightening have forced many environmental organizations into a reactive or maintenance mode - too busy to research these issues, examine the interrelationships, and assess the potential impact on their companies. How do you know if there is a significant problem (or opportunity) if you have not done the analysis and connected the dots into a comprehensive, actionable strategic plan? Think security concerns pre-9/11 in the United States.

Strategic planning fell out of favor in the 1980s after planners prepared the 3-ring binders that no one ever read. That was a simpler time. Strategic planning is very much in vogue today in our complicated and interconnected world. In the past, a company’s worth was determined primarily by its tangible assets. Today intangible assets such as reputation, intellectual property, and brand recognition can comprise more than 75 percent of a company’s value (consider Johnson & Johnson, Microsoft and Nike).

The resurgence in importance of strategy was reinforced recently by three research studies. The first investigation was conducted by a team led by Jim Collins and published in the book *Good to Great*. It described how mediocre companies went from so-so performance to sustained excellence. The second study, the Evergreen Project, was conducted by a team of researchers across a number of organizations and led by Professor Nitin Nohria at Harvard Business School. Both found that, of all the factors considered, only a few really mattered and strategy, as a value contributor, is listed at the top.¹

The third study, by Kaplan and Norton, was an evaluation of companies that used the Balanced Scorecard to support the successful implementation of their strategies. Companies that could communicate successfully and measure the progress of their strategies beat the odds relative to other companies with ambitious goals but ineffective strategies to obtain these goals.²

The point of this is that strategic thinking really matters in the business world. Environmental issues can directly impact both tangible and intangible corporate assets. The effort required to examine these considerations is worth it - even at the sacrifice of other, more traditional, environmental activities.

Planning essentials

There are two common misconceptions about environmental strategic planning. First, emerging environmental concerns will impact only major corporations. Therefore, small to mid-size businesses only need to follow the regulations and go with the flow dictated by the majors. I would not bet on this as a viable strategy. I never gave terrorist threats much thought, but even for my small business it has impacted travel, international client considerations, and insurance.

Books are being written on how emerging environmental issues will impact all companies in the future.³ Large companies may have more complex issues and require significant resources to evaluate the threats and opportunities, but even a small company can benefit from some basic level of strategic planning.

The second misconception is that large companies are already “on top of these emerging issues.” Again, using the 9/11 analogy, many of the signals were there well in advance, but no one had connected the dots. Arrogance and egos dominated the agenda and the most telling warning signs got lost as top bureaucrats talked amongst themselves about what they thought was important. While external compliance audits are common, it is extremely rare for companies to routinely bring in independent experts who can challenge the company’s environmental strategic direction.⁴

The first step in any strategic plan is to do the obvious: plan the plan. This involves selecting the overall model that will be used. It is usually best to use your own company’s business plan as a template, since it will be familiar to executive business management. You might vary this model (and probably should for some of the considerations described below), but it is important to package the results using the same structure and terminology with which management is comfortable.

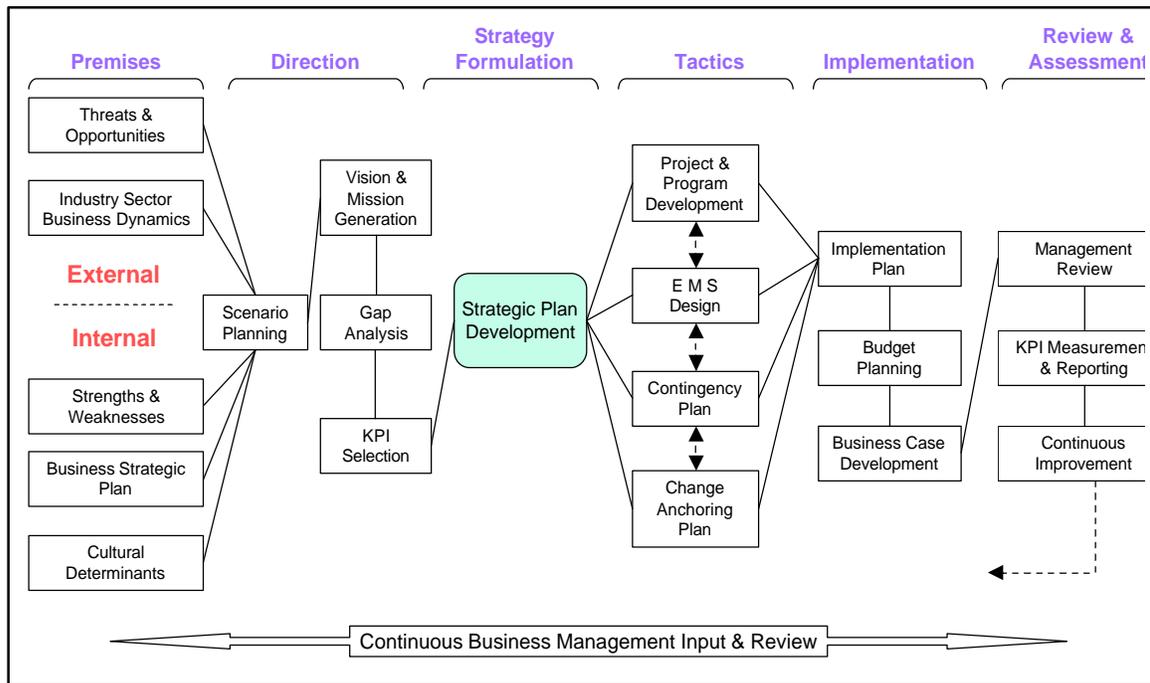
I use a proprietary 16-step model that has been described briefly elsewhere.⁵ **Figure 1** is a representation of how the six major components link together. There are numerous other general business models (e.g., Design School, Steiner, Ansoff) and company models (e.g., GE, US Army, Kaiser Aluminum) that have been described in the literature, but these are not specific to environmental issues.⁶

Although the sequence in the figure is linear, in reality a number of the individual steps occur simultaneously or in iterative loops. Business management input and education is the most obvious example of this interplay. Management is comfortable with the strategic planning process and it is the perfect excuse to get quality face time. Indeed, one of the most important outcomes of the planning process is that it leads to a greater management awareness of environmental issues and opportunities.

Premises

“Premises” is the research stage. It involves the gathering of information that clearly describes the current reality within five areas: (1) the company’s business

objectives as described in the most recent strategic plan; (2) industry sector business dynamics, including specific responses to environmental issues and opportunities; (3) an analysis of external environmental threats and opportunities; (4) an internal analysis of the company’s ability to deal with these threats and opportunities – its strengths and weaknesses; and (5) the company’s cultural determinants that may either support or impede the implementation of environmental efforts.



Environmental Strategic Planning

Figure 1

The last point – cultural determinants – is the point most often ignored. It is essentially the “elephants in the room” that few are willing to openly address, but can have a major influence on the strategic direction. Cultural determinants include such items as the management’s and front-line employee’s attitudes toward environmental programs, the company’s values (not just the written words, but the reality), organizational issues such as silo mentality and extreme centralization or decentralization. This evaluation generates a list set of cultural imperatives that are necessary to support the overall business objectives.

“Premises” is also the step that few companies do well, if at all. They “wing it” using information obtained “off the top of their heads” or some rudimentary process involving little invested time or resources. The facts are not systematically examined and prioritized. In many respects, “Premises” is the most important step or to quote a computer truism: “garbage in = garbage out.”

As an example, I was involved in facilitating the strategic planning process of two major corporations in which not the slightest hint of certain pre-existing environmental issues was ever mentioned. Within two years (a short time

considering that strategic planning typically examines forward-looking horizons of five years or more), both companies were hammered by these issues.

Direction

The “Direction” step answers the question, “Where are we now and where should we be headed?” In order to achieve this step, it is necessary to integrate all of the information gathered under “Premises.” One of the best ways to accomplish this task is through scenario planning. Scenario planning integrates information into several stories that describe how environmental issues might evolve and provides insight into issues or opportunities. Typically three scenarios are developed: most probable, most favorable and worst case.

Aside from integrating a lot of unconnected information, a scenario serves as a test of the final implementation plan and answers the question, “Is this plan sufficiently robust to handle the range of possible outcomes?” It’s called “wind tunneling” the plan. Scenarios are also a wonderful technique to educate business executives on emerging environmental issues.

Scenario development is so important that I will write an upcoming Manager’s Notebook on this subject. In the interim, I strongly urge readers to read an actual scenario plan on global warming developed for the Pentagon near the end of 2003 and summarized in FORTUNE magazine.⁷ After 9/11, it is clear that the military is re-thinking its planning techniques.

In the “Direction” step, it is essential to formulate a vision and mission first and then analyze the gaps from the current realities. The danger is that the strategic planning team immediately begins to impose assumed limitations on what can be accomplished or what management may or may not be willing to support. Using this sequence will help avoid the incremental thinking. My motto is: think big, think strategically and then adjust later. Continuous input from and education of business executives will ensure that the effort will not go too far off the mark.

Strategy Formulation

“Strategy Formulation” sets the overall strategic objectives and targets. The preceding step, “Direction,” determines this conceptually; this step defines it explicitly. It also determines the major strategies that will be needed to accomplish these objectives and targets. The temptation is to launch immediately into the nitty-gritty of tactics (a.k.a. problem solving), something that engineers, in particular, like to do. The focus is more program-oriented than project-centric.

Part of the reason for separating tactics from strategy development is to keep the thinking at a high enough level to examine the full range of possibilities. Tactical discussions can be quite narrowly focused and limiting. These strategy sessions are best done away from the normal working environment and with the support of a facilitator and staff members from other functional areas. It is also another opportunity to test the original vision and mission.

Tactics

“Tactics” is what comes naturally to environmental professionals. Indeed, most so-called strategic plans are nothing more than project lists with a little information thrown in about vision, values and mission. The environmental management system (EMS) is the key tactical tool for linking all the components together, yet these systems are often the first item to be designed before a vision is even set. Not only that, the environmental management information system (EMIS) for the EMS can even precede the EMS!

So common is this wacky approach to strategy and tactics that it even has a name - vendor-driven systems. That’s right. There are a lot of smiling, friendly consultants out there that are more than willing to sell you a package that will do everything imaginable for you, or so they may claim. Throw in benchmarking and what you have is the blind leading the blind using the same white cane to head in the same direction. No wonder business executives have trouble seeing value in environmental programs using such shallow methods.

Two other important, but often overlooked components are contingency plan development and change anchoring strategy. Contingency planning is the “what-if” test and is greatly aided by the scenario planning exercise. Change anchoring addresses the cultural issues and, in particular, the behavior components and management support issues.

Implementation

“Implementation” finalizes the time lines, determines the budgetary considerations and develops the business case for the overall plan. This is illustrated as a distinct step in the sequence, when it actually is an ongoing education and feedback process. There is no point in spending a lot of resources developing detailed action plans if they do not have any hope of receiving resources. On the other hand, environmental managers make self-limiting assumptions without ever gently testing the waters. Important and especially new projects and programs require a long, interactive period to gain management support.

Another reason for utilizing this deliberate approach is to avoid the standard budgeting process: examine last year’s budget and ask for an increase or be told to cut it by some percentage or headcount (a more likely scenario in today’s business climate). A strategic approach examines where the company needs to be, what it will take, what it will cost, and what are the business benefits. A tactics-centric approach examines what resources you are allowed and what can be done with these resources.

Review & Assessment

“Review & Assessment” lays out the details of the plan to business management and monitors progress along the way using the Key Performance Indicators (KPIs) identified earlier. Ideally, the outcome of the planning process should be reviewed with the CEO and the board of directors. At a minimum, it should serve as input to this business strategic plan.

Recognize that KPIs generally are not the usual environmental indicators such as fines, accidents and compliance issues. They are, instead, measures of performance toward the mission and are a means of measuring progress toward strategic goals. They help evaluate the status and assist in changing business policies and processes so that the mission is accomplished through a series of small, incremental steps.

This is an active process and as soon as it is “done,” the measuring and reporting process feeds the start of a new round of planning. This statement may come as a shock to those used to a planning process that lasts a day or two. But true strategic planning is a continuum with input, review and adjustments along the way. It is not a 3-ring binder that sits on the shelf collecting dust.

This is not to imply that it is a full-time job for one or more individuals. It is, however, a commitment of several days per month on the part of environmental management, once the planning system is established. To put this in perspective, wouldn't it be a frightening if your top executives thought strategically only a day or two per year?

Conclusions

Although a tactic-centric approach may define the norm in most companies, the point of this Manager's Notebook is to encourage you to spend a relatively small amount of effort to determine if it is possible to break free from these confines. The business marketing and product development people do this all the time, why not you?

Strategic planning offers a wonderful opportunity to interact with executive management using their own familiar business tools. It can help dispel the notion that environmental management is all tactics (i.e., regulatory issues and task-oriented processes that may be more cost effective done externally). Strategic planning is a tremendous tool for prioritizing resources and demonstrating how all the key components fit together to support business objectives. It can also help dispel the notion that an EMS is a substitute for planning (although an EMS contains planning elements, they are set in a narrower context). It can also help to fend off vendors pushing hardware and software that may or may not be appropriate to meet business objectives.

For all its positives, strategic planning is still one of the rarest of all activities practiced by environmental professionals. To listen to the hearings, it is as rare as terrorist strategic planning by our government pre-9/11. I know of no company that has a comprehensive planning process such as the one described in Figure 1 (although I have been involved directly in *business* strategic planning efforts that have had all of these elements and then some). Environmental managers are just too busy putting out fires.

I would be very interested in any feedback from companies, organizations or agencies that have sophisticated strategic planning. Would you like to be showcased in an upcoming Manager's Notebook? Love to hear from you.

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³ For an intriguing perspective on these emerging dynamics see James Gustave Speth, Red Sky at Morning: America and the Crisis of the Global Environment, Yale University Press, March 2004.

⁴ See for example the article on external advisory groups, R. MacLean, *The Best Advice May Come with Attitude*, with John Musser, Dow Chemical Company, Midland, MI, EM Magazine, October 1999, Pages 13-16.

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⁶ The best source for the basics on business strategic planning is Henry Mintzberg, The Rise and Fall of Strategic Planning, The Free Press, New York, 1994.

⁷ David Stipp, *The Pentagon's Weather Nightmare – The climate could change radically, and fast. That would be the mother of all national security issues*, FORTUNE, February 9, 2004, Pages 100-108.