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Managing Corporate EHS Responsibility

How to Implement the Assurance Function

by Jane E. Obbagy

Corporations that face new and more challenging demands in the many roles they are expected to play can incorporate their social responsibility and environmental assurance function into corporate operations through well-planned and focused activities. This article focuses on specific actions that can have a significant and positive impact on an organization's journey down the pathway of corporate social and environmental responsibility.

New Context

In the recent past, achieving conformity with regulatory requirements and going beyond compliance to reduce environmental impacts through innovation and source reduction were the standards corporations required to address legal requirements and public opinion.

Today, companies must continue to appropriately manage the environ-

mental and social aspects of their profit making activities while also being accountable to a wide range of stakeholders, including but not limited to governmental entities, employees, local communities, interest groups, and shareholders.

Given the magnitude of this challenge, universities, consulting firms, lending organizations, and global industry organizations are helping business step up to this opportunity by providing guidance to boards on what it means to be responsible, defining the terms of reference, giving advice on how to structure public-private partnerships, and demonstrating philanthropic social and environmental activities.

As these activities get under way, corporations around the world are operationalizing corporate social responsibility or implementing a set of activities to enhance the environmental, social, and economic features of day-to-day practices in response to local and global stakeholder requests.

Understanding the Changes

The environmental and social coordinates of today have evolved considerably over the years. With increasing frequency explicit statements about responsibility to society can be found in company mission or vision statements, and progressive environmental and social initiatives are actively being incorporated into business strategies. Measures include formal and systematic processes for engaging in dialogue with key internal and external stakeholders.

Corporate reputation is increasingly being founded on strong environmental and social programs coupled with financial results. Key aspects of environmental and social performance are being verified, taking into account compliance with legal requirements and emerging global corporate responsibility standards.

Note: Environmental and social coordinates refer to the full range of information about social and environmental standards, activities, partnerships, and stakeholder relationships. See "The Next Generation Assurance Function" in the August 15, 2005, *Advisor*.

For those involved in the assurance function, the most frequently asked question is "How do we transform the corporate social responsibility assurance function to address the changing landscape in a meaningful way that has the support of management and the growing list of key stakeholders?"

Transforming the assurance function is not an easy task and involves negotiating organizational and cultural boundaries amid myriad other considerations.

However, from a functional point of view, the process involves two major activities:

- Defining the scope of the assurance function relative to the evolving environmental and social coordinates that are pertinent to your organization, *and*
- Realigning assurance function resources by acknowledging the



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appropriate implementation model relative to operating realities.

Scope of the Assurance Function

Historically, the assurance function was focused on providing senior management and the board of directors with independent verification that operating facilities were in compliance with legal requirements and internal environmental policies and procedures.

This objective was accomplished through a number of activities focused on compiling and assessing data from environmental, health, and safety audits; injury, illness, and accident statistics; notices of violation; and assurance letters from senior operating personnel.

In light of the changing environmental and social coordinates, the objective of the assurance function is evolving and is focused more and more on reducing the firm's environmental and social risk through enhanced data gathering and transparency, ultimately contributing to increased stakeholder satisfaction.

To achieve this objective a broad spectrum of data needs to be gathered, evaluated, and shared with interested parties. Gathering the information to undertake the new assurance function can translate into the variety of activities outlined on the next page.

As suggested by this list, the restructured assurance function is all about monitoring and evaluating processes that are already in place or are in the process of being implemented. Careful planning is needed to position the assurance function so that information about the activities outlined in the table can be gathered. Such activities most likely will include identifying key players who will manage the implementation effort, planning for transition by developing an action plan, selecting implementation team/transition team members,

Table: Next Generation Assurance Activities	
Activities	Program Descriptions
Conducting Assessments	Conducting assessments of environmental, health, safety, social, and overall sustainability programs by independent parties covering the broad spectrum of performance, including but not limited to compliance with industry standards and laws and regulations; EMS certifications; notices of violations; progress in meeting EHS metrics; and voluntary programs such as climate change and land reclamation.
Evaluating Commitments	Reviewing and evaluating commitments to enhance performance in areas such as business ethics, bribery, individuals' rights (e.g., evaluating whether portfolio decisions take into account environmental, social, and economic contributions to society, and assessing the results of activities that support industry initiatives to address bribery).
Appraising Partnerships	Appraising the commitment to and success of private-public partnerships in all areas of the world with a focus on developing countries and efforts to address poverty, education, and local sustainable livelihoods.
Participating in External Rating Schemes	Participating in external rating schemes that provide an independent opinion to augment assessment results regarding the companywide commitment to and progress toward environmental and social performance goals.
Assessing Philanthropic Activities	Assessing corporate philanthropy and its impact on community investments and support of programs to enhance the well-being of individuals and the environment
Assessing Environmental Investments	Assessing investments and progress being made in reducing energy and water resource demands or maintaining biodiversity.
Communicating with Stakeholders	Reaching out and communicating with key global and local stakeholders to understand their assurance informational needs and concerns relative to the corporation's environmental and social footprint.
Undertaking External Reviews	Undertaking external evaluation and/or verification reviews of the overall assurance process to validate that the corporate social responsibility assurance system has the processes in place for communicating objective and defensible performance results
Communicating Performance Data	Communicating performance data to stakeholders especially in the areas of worker health, freedom of association, use of forced labor, and use of child labor; community investment and support; efforts to reduce the company's environmental footprint; toxicity of environmental releases; energy conservation; efforts to reduce poverty and enhance the economic well-being of communities where the company resides; and business ethics.

getting buy-in from all relevant management levels, and carrying out a detailed communication plan to

inform everyone of the changes and the expected benefits from the redesign efforts.

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Operating Reality

Businesses are taking the call for action seriously and are redesigning the assurance function and realigning resources to ensure that the overall organization can effectively manage assurance responsibilities over the long term to meet stated goals and objectives. Realigning assurance function resources to the operating reality involves acknowledging which organizational model best characterizes the corporation and implementing actions to address the situation. In a simplified context, realignment of assurance resources can be viewed from three broad organizational models—the big conglomerate, the conventional corporation, and the heavy footprint corporation.

The Big Conglomerate

The big conglomerate is typically an organization structured and managed as a holding company with one or more operating companies. The operating companies are quite diverse, have varying environmental and social risks, and essentially function as independent organizations with different strategic growth objectives, customers, and images in the marketplace. Providing value to stakeholders in each unique marketplace is a key success factor for this type of organization. This characteristic also applies to the assurance function— increase stakeholder value by improving the management of environmental and social risks that are unique to the business through data gathering and performance appraisal. Thus, each operating company has a key role in executing the assurance function and serving as the prime contact for undertaking the activities in the Table, which complement the objectives of the assurance function.

The holding company's assurance role is really one of monitoring a broad spectrum of activities across the organization to alert management of potential issues or gaps in assurance activities that may impact the overall performance of the conglomerate today and tomorrow. It also has a role in identifying best practices across the organization to enhance the

effectiveness and efficiency of assurance activities at the operating company level. In light of this organizational approach, the external environmental and social profile of the conglomerate will be a collage of performance information that represents the various faces of its operating reality.

The Conventional Corporation

The conventional corporation is a large business where each of the operating companies or divisions is involved in separate but related products and services (e.g., pharmaceutical companies, food companies, power companies). The public generally does not differentiate the varying environmental and social risks associated with each of the operating companies or divisions. Moreover, the reputation of the entire company is key to selling the products and services across the enterprise. As a result of these factors, consistency in assessing and reporting performance across an integrated entity will be one central issue associated with the success of the assurance function. Therefore, a corporate social responsibility assurance group working across the entire enterprise is the most efficient and practical approach for achieving the goals given the operating realities.

The Heavy Footprint Company

The heavy footprint company is one that has a recognizable environmental and social footprint and the public's perception of this footprint is lukewarm to negative because of industry environmental incidents. Although significant efforts have been made to enhance environmental and social performance, the heavy footprint company continues to be tethered to an image from the past. Like the conventional corporation, the assurance function within the heavy footprint company will need to work across the entire enterprise to help ensure that the full range of information is being gathered, evaluated, and reported. From an external perspective, the future credibility and acceptance of the assurance function within these types of corporations will clearly be

linked to its transparency as established by:

- Clear and simple statements about performance across the enterprise as well as operating-company specific performance data.
- Candid descriptions of the current reality and a clearly articulated pathway forward to reach the corporation's stated environmental and social goals and aspirations.
- Detailed discussions regarding the materiality of environmental and social impacts.
- Focused assessments regarding ongoing efforts to enhance land management issues and human rights.
- Unequivocal comparisons of profits relative to demonstrable and successful returns on corporate social responsibility activities.

These bold steps in advancing transparency will help eliminate or minimize the public's concern about past and current performance.

Embracing the Makeover

Corporate social responsibility is having a profound impact on business strategy, operations, and culture. Institutionalizing corporate social responsibility activities, which underlies many of the assurance activities mentioned here, is in the early stages of implementation. Thus, the process of operationalizing the assurance function will be somewhat challenging.

Nevertheless, the time is right for starting the process for obtaining agreement on the scope of the next-generation assurance function based on a well-thought-out process to obtain stakeholder input and management buy-in and assessing the resources or realignment of resources necessary to achieve new goals and objectives.

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