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The Next Generation Assurance Function

Recognizing an Expanding Portfolio

By Jane E. Obbagy

A public increasingly sophisticated in the role business plays in environmental stewardship is having a profound impact on the architecture of the environmental assurance function. The conventional purpose of providing assurance to senior management and the board about compliance only may no longer be the framework for success. Global and local stakeholders now want assurance about the way in which a company is managing its social and environmental obligations.

Businesses are therefore moving beyond a narrow meaning of assurance that encompasses compliance with government regulations and even voluntary actions such as the adoption of environmental management systems (EMS). By gathering all the information about social and environmental standards, activities, partnerships, and stakeholder relationships— or today's environmental and social

management *coordinates*—a business can view the footprint it will need for the future of assurance function.

That future reflects the climate in which business operates today, or the growing emphasis on the balance between economic health and environmental health, and will continue to take shape as the emergent requirements for assurance become more defined.

This article will review some of the coordinates that will comprise the next generation assurance function, the types of information needed to establish assurance, and how the nature of staffing may need to change to accommodate the expanding meaning of assurance.

Coordinates

Environmental management in business has undergone a major structural transformation from mere problem solving to the recognition of a broad portfolio of environmental coordinates as key elements of corporate strategy (see Table 1 on the next page). When viewed as an interacting hierarchy, these coordinates begin to give shape to the next generation assurance function.

The evolution of environmental management follows recognition by industry that the public's desire for information will continue to gain prominence in the years to come. It has become apparent that long-term business success will be influenced by demonstrated commitments to environmental and social stewardship, the principles

that govern the management of activities, and long-term environmental and social strategy.



Therefore, there is growing acknowledgement within industry that the weighting of economic, social, and environmental performance and stakeholder interests will have a larger role in the assurance process.

Moreover, corporations that are held increasingly accountable for ensuring that environmental and social issues are effectively managed are using enhanced environmental performance as an indicator of institutional strength. For example, there has been a sharp increase in the number of companies seeking performance ratings from external valuation organizations.

Displayed prominently on websites and annual reports, these indices are helping shape a broader perception a company creates among its stakeholders. These environmental indices directly and indirectly speak to the issues of public trust, integrity, and performance and clearly have become part of the assurance process.

In addition to the increasing reliance on ratings to validate and communicate performance, companies have also begun to see the benefits of using external parties such as independent consultants, NGOs, and academicians to verify or comment on selected aspects of performance. Today it is commonplace for internal assurance staff to rely on credible external parties to assist with providing qualitative and quantitative data as part of the assurance function. Stakeholders

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are increasingly using this information to evaluate a corporation's overall environmental posture as long as the qualifications of the information providers are understood and accepted as legitimate.

Shifting Environmental Responsibility

Integration of environmental management into the fabric of day-to-day activities is another notable trend in the changing dynamics of the assurance function. This trend is being business-led and line-driven.

Senior management has greater confidence in assuming operations are in compliance and are dedicating fewer financial and people resources to the environmental management function. More and more, accountability for environmental performance and ensuring environmental standards are followed are being understood within the line organization.

Thus, environmental management has moved from a functional to a more business-oriented approach requiring effective application of sharp management skills to the assurance function. As a consequence, the skill sets of staff performing the assurance function have migrated from subject-specific expertise to that of a generalist comfortable with prioritizing and addressing issues associated with responsibility and accountability, policy setting, sustainability, or corporate citizenship.

Changing Function

Based on the environmental and social management coordinates that have come to light, the value of the assurance function in the future will be measured more comprehensively. Its continuing success as a key business process most likely will be related to factors such as responsiveness to stakeholder information needs; the accuracy, consistency, and objectivity of the process relative to the company's environmental posture; and the articulation of the materiality of key environmental and social issues facing the organization and how it manages them.

Table 1: Environmental and Social Coordinates

Policies, Goals, and Expectations	Corporations have established environmental policies strategically linked to their business success and containing commitments to external party communication, stewardship, and sustainable growth. The expectation of management is that adherence to applicable rules is the norm since meeting legislative requirements has consumed significant capital, expense dollars, and time for the last 30 years.
Standards	Companies have implemented environmental standards and guidelines to achieve consistent environmental performance across operations. Social performance codes of conduct are embraced by industry although the specificity of the standards is under discussion. Assurance guidelines have been published to cover a broad spectrum of issues as well as the content of public reports. Regulators and accountants are focusing attention on SEC environmental disclosure requirements.
Metrics	Companies have established aggressive environmental goals that typically go beyond compliance. Mechanisms are in place to track economic, social, and environmental performance; however, economic performance and environmental performance are measured in more depth than social performance. It is widely acknowledged that environmental and social intangibles that provide perspective on a corporation's motivation are hard to measure.
Resources	Managers understand and accept that environmental performance is inherent in their overall responsibilities. Responsibility for social performance is viewed as a company responsibility. There is a shift toward operational-level accountability, with fewer corporate-level resources allocated to the environmental management function. Internal environmental departments are being combined with other types of service organizations at the corporate and operational levels to maximize delivery models and reduce unnecessary costs. The assurance function is staffed with employees with functional, operational, legal, and ethics expertise.
Assessments	Independent environmental assessments are conducted to provide assurance to senior executives that applicable regulations are effectively managed and adhered to. An increasingly large number of companies are seeking performance ratings such as the Dow Jones Sustainability Index, FTSE4Good Index, Domini Social Index, and Social Accountability 8000 as indirect measures of progress toward goals and an affirmation of performance. In certain industrial sectors, external assurance reviewers are being asked to comment on processes used by a company to identify and evaluate the materiality of environmental and social issues impacting the company.
Global and Voluntary Programs	International environmental initiatives to address issues such as global warming, biodiversity, and sustainable development are being embraced by industry. Participation in voluntary programs that feature verification and certification is being promoted as a means to demonstrate a high level of environmental performance (e.g., U.S. EPA's Performance Track, ISO 14001) and more companies are participating in such programs.
Partnerships	External parties such as NGOs, government, and academic institutions are increasingly being considered by industry as trusted partners to provide independent guidance in implementing environmental and social initiatives or reporting on progress. Examples are accumulating, indicating that industry and NGOs are working in partnership to implement selected environmental or social initiatives.
External Stakeholders	Corporations are reaching out to stakeholders to obtain insights regarding their environmental and social information needs. The environmental and social information needs of a company's global and local stakeholders sometimes overlap. The dollars associated with socially responsible investment funds are growing rapidly, suggesting that the public is supporting companies that demonstrate commitment to environmental and social issues. There has been a rise in the number of stakeholder resolutions concerning the sustainability and performance of companies.
External Communications	Annual environmental and social reports are issued with a predictable frequency. Company websites increasingly provide detailed corporate and site-specific performance data. Feedback on the content of annual reports is regularly sought and frequently summarized for public review.

These emerging success factors will necessitate some assurance process changes. Companies and their

constituencies will need to explore better ways to communicate with each other and to understand when

interests on both sides have changed. This will require flexibility—as the posture of the company changes and grows, the communication choices and data sources will change as well.

For some industrial sectors with worldwide environmental and social footprints, providing assurance might require an emphasis on the integrity and quality of performance data. For others, it might require an emphasis on attestations from opinion leaders and local stakeholders, or analyses focusing on the correlations among audit results, injury, illness and accident statistics, and environmental metrics.

Tomorrow’s assurance process will be dependent on staff with an ability to engage in dialogue with a broad set of stakeholders to understand internal and external assurance needs.

Generalists will gradually be replaced by assurance stewards who will need to rely on internal or external specialists with demonstrable credentials for auditing or commenting on environmental and social performance. These stewards will also need to have an ability to decipher vast quantities of information (see Table 2) to fulfill the mission of the function as well as to judge its materiality to highlight data that will

Types of Assurance Information		
Performance Data	Attestations	Other Information
Environmental audit results and follow-up activities Injury, illness, and accident statistics; notices of violation; and major incidents Metrics that convey information about an organization’s environmental and social performance External indices covering economic, social, and environmental performance Product safety and toxicology statistics	Letters of assurance from operating companies and/or facilities attesting to environmental performance with governmental and internal environmental requirements Attestation letters from external parties about the company’s conformance with its code of ethics, governance processes, or social programs	Types of voluntary programs in which the organization participates and number of operations that have received EMS certifications, etc. Survey or opinion poll results from local communities about an operation’s environmental and social performance Comments from experts (i.e., thought leaders) that have a particular perspective on an organization’s performance that is desired by a particular stakeholder or set of stakeholders

provide meaningful insight into the corporate mindset.

Taking Action

Actions required to move the assurance function to its next generation will vary by company. Companies starting down the evolutionary path should consider evaluating likely impacts and benefits from redesign and weighing implementation obstacles with success strategies in light of their competitive platform and distinctive environmental

and social positions. Systematic learning will help determine what needs to be done to get to where you want to be with respect to assurance function.

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