

Compliance and Beyond: Case Studies and Lessons Learned

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Corporations are facing new and more challenging demands related to the many roles society expects them to play. In the past, corporations simply were expected to comply with regulatory, government imposed, requirements.

In this era of social accountability, their reputations increasingly are being linked to environmental sustainability and corporate social responsibility (CSR).

Consequently, the historic function of providing assurance to management that the company's operations are in compliance is changing in fundamental ways.

Today, I would like to talk about sustainability and CSR, using the terms interchangeably, discuss their benefits and give some exciting examples of how companies are making sustainable practices work for their bottom lines.

Understanding Sustainability and its Benefits

- Throw away your Webster definition. To me, sustainability is a suite of activities within a multi-directional process.
- Not an individual action, but rather a change in the paradigm with a set of fairly predictable outcomes.
- A journey, rather than a destination.
- Sustainability is a way for companies to cut waste, increase efficiency, use green approaches, and save money – all at the same time.
- In other words, a new business model where doing “good” for mother earth and doing “well” financially are completely compatible.

Why should this matter to your company?

- Understanding the sustainability challenge, as well as best practices in addressing the opportunities and risks can:
 - Save you money
 - Build your market share

- Improve your reputation
- While at the same time, help the planet
- A recent survey by The Economist Magazine makes a striking argument for sustainable practices – the link between corporate sustainability and strong share price performance.

The article found that:

– in general, the high-performing companies put much greater emphasis on social and environmental considerations at the board level, whereas the poorly performing firms were far more likely to have no one in charge of sustainability issues.

Clearly, the Global Marketplace is Changing in a Good Way

- I would like to share some brief examples of companies that have realized the benefit resulting from greening their operations:
 - *DuPont*, a multinational chemicals and healthcare company, has cut costs by \$2 billion since 1990 through increased energy efficiency while reducing greenhouse gas emissions by two-thirds.
 - *Novartis*, a multinational pharmaceutical company, has been increasing water and energy efficiency for several years, and in 2006, has strategized 32 environmental projects the organization could implement to save the company \$50 million over the next ten years.
 - *3M*, a multinational conglomerate, after cutting energy intensity by 34% and saving \$82 million in expenses between 2001 and 2005, achieved a further reduction of 9% in 2006, saving an additional \$10 million.

(Source: Microsoft.com, Dr. Paul Kliemstra, May 08, 2008)

The Fascinating Role of Consumer Demand

- After consulting consumers, environmentalists, and other stakeholders, General Electric saw that the needs of some sustainability challenges could be met by existing products that they provide and that the company could develop new products to meet the outstanding problems
- GE's Ecomagination concept started with energy-saving products, but has moved on to include items such as credit cards for which GE sets aside an amount up to 1% of a customer's net purchases each month, which is then used to buy carbon offsets every year on Earth Day.

- According to one GE Executive, “We came to the conclusion that we can make money by facing environmental challenges because our customers are demanding it.”

(Source: Microsoft.com, Dr. Paul Kliemstra, May 08, 2008)

First Hand Knowledge: Lessons from The Horinko Group

From my own consulting practice, I have observed notable examples worth mentioning, as well, as they illustrate the benefits of comprehensive approaches to greener, leaner operations.

Wal-Mart

Wal-Mart has pledged to reduce the company’s impact on the environment through a commitment to three ambitious goals:

- To be supplied 100 percent by renewable energy
- To create zero waste
- To sell products that sustain our resources and the environment

Not only is Wal-Mart reducing costs and saving money while doing the right thing for the environment, but by actively pursuing an environmental agenda the company would help differentiate itself from its competition, maintain a license to grow, and make its supply chain dramatically more efficient.

(Source: Blu-Skye.com, June 2008)

My old friend JP Suarez, who is in charge of all compliance at Wal-Mart, tells the story of common sense compliance through the squiggly noodle issue.

Simply put, money was saved, packaging reduced, waste stream minimized by by asking the noodle producers to cut out some of the squiggles, without minimizing product content.

Wal-Mart is paying attention not to one bottom line, the traditional financial one, but is expanding its scope to focus on a new, triple bottom line – that is, paying attention not only to financial results but also to social and environmental outcomes.

Dow Chemical Company

Dow has created top-down changes that related directly to its ambitious 2015 sustainability goals.

Being among the first major corporations in the country to actively revitalize its opportunity sites for productive reuse and community betterment:

- Michigan Renewal Coalition
- Vision Tri-County
- Community revitalization in Dow communities around the world

Freeport McMoran Incorporated (formerly known as Phelps Dodge)

Adopted Best Management Practices utilizing EMS approaches to sustainability in partnership with EPA:

- Copper Slag Recycling
- Developing energy saving wind turbines in EPA Region

Koch Industries: An amazing environmental turnaround

- In 1998, paying \$80M in fines and legal fees.
- Don Clay created top down and bottom up culture change
- Specific cost and environmental savings through innovations such as:
 - Marquis Settlement
 - Flare Reduction/CAAAC Award
 - Use of EPA Region Audit Policy
 - Commitment to 10,000% compliance
 - Start, Shutdown, and Malfunctions Emissions Reduction

Research shows that corporate social responsibility practices not only help improve society, they also tend to benefit the companies by adding value to their relationships with customers, employees, shareholders, their boards of directors, and other firms.

Conclusion

I would like to conclude with five key criteria that underscore the major change illustrated in all of these mini-case studies: resources, transparency, third-party attestations, metrics, and liability reporting. These concepts were originally presented in July by Jane E. Obbago, Vice President of The Cadmus Group. I believe they offer the best framework for gauging the evolution of EHS reporting today.

I. Resources: In the past, the assurance function was staffed primarily by technical experts (e.g., in air pollution control or industrial hygiene) who could verify compliance with applicable governmental requirements.

As other issues have emerged (e.g., stakeholder requests for information about contributions to local communities, the sustainability of current operating practices, and

the long-term health and environmental impacts of operational emissions), new skills and expertise are required to maintain an effective assurance function that increasingly addresses issues related to life cycle analysis, stakeholder engagement, and finance.

Skills such as vision, communication, and ability to collaborate effectively.

II. Transparency: Demands for corporate transparency are not going away. In fact, expect external stakeholders to request even more information, particularly so they can better understand a company's motivation and philosophy towards the environment and social responsibility.

As a consequence, the assurance function is looking beyond the corporation as staff members participate in annual shareholder meetings or in focus sessions to discuss performance and answer stakeholders' questions about current and new compliance and sustainability programs.

III. Third-party opinions: As the assurance function has looked increasingly outwards as the public's demands for independent affirmations of corporate performance have grown.

As a result, third-party opinions in the form of attestations, certifications, and ratings have become commonplace features of the assurance function.
Notable use of Licensed Site Professionals to certify cleanups

IV. Metrics: Many companies adhere to the philosophy that "What gets measured gets managed," and the use of metrics in the assurance function has grown tremendously over the past several years.

Our corporate social responsibility work leads us to conclude that organizations should define new sets of performance metrics—and many already have.

Doing so means thinking outside the "compliance assurance box" to establish indicators—such as reductions in greenhouse gas emissions and the verification of those reductions.

V. Liability reporting: Since the passage of Sarbanes-Oxley and the advent of its new accounting standards, environmental assurance has captured the attention of the financial and accounting worlds.

New requirements and standards for reporting environmental liabilities have created the need for validation of how companies estimate and report environmental costs related to their operations and assets.

Pressure from shareholders and regulators is driving companies to look for increased assurance that their environmental costs and liabilities are accurately characterized, measured, and verified.

The function of environmental assurance is undergoing a transformation.

How your employer keeps pace is related to the specific steps your company takes to address stakeholder requests for more information and how it communicates its commitments to key environmental and social issues.

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Great example is Dow's use of the appeal of "green chemistry" to attract and retain a new generation of workers.

Thank you. If there's time, I would be happy to entertain questions.

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