



DELIVERING STRATEGIC SOLUTIONS ACCA'S 2000 ANNUAL MEETING

Leading To Greener Pastures

Adoption of the ISO 14001 management system standard is stalled at a crucial juncture. Business must prove that it can in fact lead the way on sustainable development. To do that, it must first be able to demonstrate that managing to the international standard can produce real-world environmental improvement

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In the recent movie *Babe*, a screen fable about an anthropomorphic pig, the engaging porker wins the Scottish national championship for shepherding by inventing what organization gurus would surely call a "new management paradigm." Babe's singular advantage is his willingness to speak politely to the sheep in their own language. Instead of behaving like the typical sheepdog, barking and nipping, Babe compliments the animals and politely asks them to move. By seeking the sheep's collaboration, rather than their fearful obedience, Babe achieves unprecedented success at his calling.

Babe teaches the value of truly listening to what those whom you would lead have to say, and about the power of collaboration and humility. Applying such concepts to the world of the new international environmental management system standard is not as strange as it might seem. The ISO 14001 universe, populated by business interests and government promoters of trade and commerce, now regards its critics in regulatory agencies and public interest groups much as Babe's flock looked upon sheepdogs – as snarling wolves about to attack rather than as trusted guides to lead the way to safer and greener pastures. Using another management cliché, to be "pro-active," business proponents of a truly effective EMS standard and its widespread adoption would be wise to help those from the regulatory and non-governmental worlds master ISO 14001's new vocabularies and concepts to enable them to better listen, and to better participate.

The environmental community should listen up too. Unfortunately, many public interest organizations have already written off the international EMS standard as a "business thing" because it is not the usual type of regulatory issue with which they are familiar – or even worse, they suspect industry of trying to pull off a clever ruse. But the NGO community has an enormous stake in guiding industry's application of the standard. ISO 14001 can give environmental organizations a powerful new language for engaging business, because some of the most basic human activities that affect the environment – the use of energy, water, and land, for instance – lie mostly outside the scope of governmental regulation, but not outside the scope of industry's ability to affect them, both positively and negatively.

Unfortunately, this dialogue with the business and regulatory communities may stall before it really gets going. And as a result, global implementation of the ISO 14001 standard is in danger of not following its promising new pathway to environmental improvement. To jump start the dialogue again and retake the initiative, business must be able to show the kind of leadership no one would have ever suspected. The Babe analogy is right on: business must prove to the environmental community and government that the corporate world can be their unlikely shepherd on the way to environmental quality.

Nothing less than demonstrable environmental improvement is a "metric," if you will, that will really interest the public. However, ISO 14001 was deliberately developed without specific environmental performance requirements, because the global business community and their brethren in the international standards community realized there were already a plethora of regulatory standards that vary from state to state and country to country. The needs for an EMS standard were to, simultaneously, provide a simple process that could raise under-performing enterprises to the baseline of compliance, and, second for other companies who had already gotten the basics down, to go well beyond regulatory requirements. The standards-writers reasoned that the best route would be to allow firms to set their own performance goals – with compliance to regulatory requirements a given, of course – and construct an environmental management system that would push for ever-improving results. As an important corollary, the standard allows for a system of certifying a company's EMS operation, which requires a willingness to demonstrate results and to continually adjust the EMS components to improve. That's what ISO 14001 is all about.

So far, several hundred companies have certified EMSs in place. But, depending on the outcome of several important ISO meetings this spring, the international business community can make the standard really stand for environmental improvement – or just a coat of green paint.

At this critical juncture, ISO 14001 faces three basic challenges. The challenges are sequential, not in the order in which they must be addressed – simultaneously would be best – but that the solution to each one logically requires the next to make the previous one work. The challenges are intertwined, and this article will not make an artificial pretense of completely separating them. If these challenges are successfully resolved, the ISO community of business and standards institutions will begin to engage all of its broader constituencies, demonstrate success through implementation, and use proof of those successes to feed back into and strengthen the ISO 14001 process – engaging more businesses and the collaboration of a widening set of governmental agencies and public interest organizations.

Simply put, the challenges are:

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- *The challenge of aspiration.* The growing numbers of organizations adopting the standard can set consistently high, even inspiring, environmental performance goals for their EMSs – or they can appear to be hiding behind a green label;
- *The challenge of verification.* Conformity assessment, the practice of verifying a company's compliance with the standard through an independent, third-party system, can be rigorous, transparent, and convincing to the public – or it can undermine the public's confidence in the value of industry leadership; and
- *The challenge of engagement.* Business can reach out to government and the environmental community to make the case for having achieved the first two challenges – or the public will not buy ISO 14001, progressive companies will not use it, and the market will not transmit the message about the business value of environmental protection to the wider business community.

International standards help businesses work together, and with their suppliers and customers. Everyone uses an international standard when they select the right roll of film, since the film speed conforms to an ISO standard. Bolts fit nuts because they are both made to an ISO standard. CDs work on all CD players – and so on. If you have ever tried to use an appliance overseas and been confounded by different voltages, plug configurations, etc., you are a supporter of international standard setting.

ISO is the International Organization for Standardization. Based in Geneva, Switzerland, since its founding in 1947, this non-governmental international organization has some 120 national standards-body members in three classes or categories. To date, ISO has produced over 9,000 product specifications, process standards, and similar technical guidance to facilitate worldwide business and trade. But of all this large number of ISO standards, only two series deal with management systems.

ISO 9000, a set of international quality management system standards, was the first, issued in 1987. ISO's QMS standards assure business customers about the subscribing supplier's implementation of systems to reliably supply products or services of a specified quality. The ISO 9000 standards do not set a performance standard for the product or service the company or other entity offers. Rather, they provide the means of assessing and demonstrating the organization's *capacity to meet whatever level of quality it or its customers specify*.

ISO 14001, the environmental management system standard, similarly does *not* set performance levels. Performance levels are a function, first, of the implementing company's basic commitments to legal compliance and pollution prevention and, second, of the additional goals set by its corporate managers, which will depend on the company's size, services or products mix, customer demands, and other market influences – and its vision. What a registered ISO 14001 EMS assures is that the organization has the *capacity to meet whatever environmental performance levels it has set in responding to all these factors*.

Adopted in 1996, ISO 14001 was the product of countless meetings held around the globe among a wide variety of participants. While varied, these participants were predominately from business interests and official standards bodies, some governmental and some not. It is also the case that the international EMS standard, especially in these early stages of development, was the product of developed nations, not those of the developing world.

ISO 14001 came about in response to a variety of influences on increasingly multinational businesses: the dominant position of the environment as a global issue; increasing national regulation of activities and products that affect the environment; and rising demand by customers, shareholders, communities, and environmentalists that business improve its environmental stewardship. The ISO process was propelled by the emergence of national EMS standards, such as BS 7750, the United Kingdom's early model, as a means of forestalling the proliferation of national EMS standards.

The resulting EMS standard has a broader set of interested parties than its QMS cousin. The ISO 9000 series is concerned principally, if not exclusively, with the relationship among a business and its suppliers and customers. ISO 14001 is concerned with that business relationship as well, but it also recognizes the legitimate interests and influence of governments at all levels, public interest organizations, labor unions, and local community groups in improving environmental quality.

Only 14001 is a true standard in the ISO 14000 series. While ISO

14000-numbered documents provide guidance for such activities as environmental auditing, environmental performance evaluation, environmental labeling, life cycle analysis, and so forth, ISO 14001 is the only document in the series intended to be auditable and subject to third-party assessment for conformance to the standard.

ISO 14001 mandates five basic elements in an environmental management system:

- an environmental policy statement (including certain mandatory commitments);
- planning components, including a determination of significant environmental aspects, identifying legal and other requirements, setting objectives and targets, and defining an environmental management program. This portion of the standard, when combined with corporate policy commitments, is the engine of environmental improvement;
- a requirement for an implementing structure, traditionally the assignment of responsibility for implementation and operations;
- a requirement for establishing and maintaining a means of checking the EMS operation and taking whatever corrective actions are needed on a timely basis; and
- a requirement that top management regularly review the EMS's performance.

ISO 14001 – Environmental Management System Standard 14001 – is available with environmental and industrial materials. A useful companion book can be found at the

ISO 14001 comprises only five pages of text, 14 pages in total with annexes and introductory material. A useful comparison here can be made to the National Environmental Policy Act of 1969, which is only three pages long. NEPA's drafters were not trying to reverse decades of environmental degradation in a few thousand words, but, rather, to set the standard: that environmental protection is the policy of the nation, including the federal government and all of its components. How that would be done, and what levels of environmental performance would actually be required, would be worked out later, depending on varying circumstances. Likewise, ISO 14001's drafters established a framework for making progress, leaving to others the level of detail on delivering that progress.

According to ISO's most recent survey of national standard body members, at the end of 1997, ISO 14001 had over 5,000 separate certificates in 55 countries. Interest has been greatest in Japan and Asia generally followed by Europe, but has, at least until recently, lagged in North America and lags in South America and Africa.

In the United States there is new evidence of rising interest. This evidence includes EPA's March 1998 Federal Register pronouncement cautiously endorsing ISO 14001 and similar EMSs as potentially helpful tools for realizing environmental improvement objectives. In fact, as a federal agency, EPA sees itself obliged to participate in ISO 14000 standards development and related activities due to the mandate of the National Technology Transfer and Advancement Act, which requires federal agencies, to the extent possible, to use and participate in developing private standards rather than to create new governmental requirements. The evidence also includes the effort of the Multi-State Working Group, a loose coalition of a dozen states plus EPA, business, public interest, and academic parties, to collect data on a diverse range of ISO 14001 implementing facilities. Several of the states involved hope the data will be helpful to shaping new public policy approaches using ISO. And informal surveys of ISO 14001 registrars show a decided uptick in registrations during 1998.

But those who question the value of the standard also abound. To maintain positive momentum for ISO 14001, the skeptics will have to be proven wrong. *The challenge of aspiration* is first on the list. Setting high environmental performance goals will demonstrate to the public the kind of environmental improvement ISO 14001 registered businesses can produce. Companies such as BP, Ford Motor Company, International Business Machines, Lockheed Martin, Lucent Technologies, and Xerox are not only business leaders with respect to their products and services but also have reputations for leadership in socially responsible business practices. They have now chosen to implement ISO 14001 as a means of further demonstrating their leadership. Their implementation of the EMS standard is a motivator for the best to get even better at environmental performance.

Think of the standard as a building code: it defines a minimum system design specification, but leaves the level of craftsmanship and actual design to the builder and architect. The performance goals then, in the building code analogy, are less a function of the code and more a product of the level of commitment, skill, and vision the individual builder and architect bring to a given edifice. To carry the metaphor further, one can use the same building code to build a cottage or a mansion. Both may meet the basic functional requirement, but only the latter will attract attention and motivate emulation. Similarly the shape an EMS assumes from the environmental goals it aims to produce is subject more to the aspirations of – or constraints imposed by – its individual EMS designers and carpenters than by the standard itself.

A building code is to great architecture as an EMS is to great environmental performance. The same materials, depending upon vision and execution, can produce dramatically varied outcomes. Both can be used to achieve outstanding results, but may also produce an ugly result that nonetheless adheres to the standards. It is up to those who would be leaders to show the way.

If leadership companies can show through their implementation of the standard that it encourages innovation and improvement in environmental performance, their actions will help ISO 14001 gain endorsers and enthusiasts and thin the ranks of critics. Similarly, if more modestly positioned entities can show clear and significant improvement, the standard also will gain credibility as a tool for achieving environmental baselines. But, conversely, if ISO 14001 conformance merely adds a coat of green paint on a poorly designed or executed EMS, the standard's reputation will suffer.

It will take more than setting high goals to counter the skepticism. It will take solid evidence of performance results. The MSWG has taken the first step toward enabling ISO implementing companies to show their improvement. A data protocol collecting voluntarily submitted information will provide evidence of how and in what respects an EMS helps produce performance improvements. The next three years will generate needed data, instead of more rhetoric, about ISO implementation. [See sidebar, page 35.]

Some critics of the MSWG believe the data protocol is actually adding elements to the standard, not just gathering information. They express concern that these additives, like the effect of the famous homonymous food additive, will lead to subsequent headaches for EMS implementers. This is a cramped view of ISO 14001, however, and at odds with the language of the standard and the surrounding explanations of general principles and approaches. The ISO 14000 series clearly encourages the organization adopting the standard to give particularized attention to everything from determining its significant aspects to setting targets and objectives, which include both legal and "other requirements to which it subscribes." The central virtue of ISO 14001 is its capacity for upward flexibility; while no two organizations will start in exactly the same posture, all should be capable of designing and implementing a standard-conforming EMS and making improvement from their particular baseline. The work of the MSWG will provide data on what *can* happen, although not necessarily what *will always* happen, when various organizations pursue an ISO 14001 EMS over time. Credible evidence is needed to show that ISO 14001 more likely than not will lead to clear improvement in environmental performance.

The challenge then is for implementing organizations to clearly demonstrate their performance improvements and for the standard itself to incorporate some clearer requirement on the necessity of so doing. The results in these areas will have a significant effect on the future acceptance, and application, of the standard.

Another event on the near horizon that can help silence the critics is the scheduled re-issuance of ISO 14001 as a revised standard in the year 2000. Revisions are being discussed this spring. An issue that has galvanized discussion within the U.S. ISO technical advisory group – known as the U.S. TAG – is whether ISO 14001 should be modified to require external communication about an EMS. Many in the U.S. TAG feel that the standard

should require provision of information on an organization's EMS and its performance. At present, the standard requires only that an organization "consider processes for external communication on its significant environmental aspects and record its decision."

The debate over external communication underscores ISO 14001's second major challenge, the *challenge of verification*. Conformity assessment is a process completely independent from the ISO standard. Many important stakeholders, business and non-business, want more than the say-so of the implementing organization; they require an independent, qualified third-party to review and verify the organization's EMS and its implementation. This process is known as registration. Conformity assessment practices are equal in importance to the standard's content in ensuring the credibility of ISO 14001 as a tool for environmental improvement; independent verification of an organization's commitment to achieving aspirational goals is as critical as the goals themselves.

Conformity assessment has two major components: "registration" (or "certification" – the two terms are used interchangeably) and "accreditation." Registration is the process of checking an organization's conformance to ISO 14001 by an independent party – independent from the company and independent from the entire international ISO apparatus and its national and non-governmental units. The process of evaluating the competence of these third-party registrars to perform such an assessment is called accreditation – a process performed by yet another independent body. The twin building blocks – registrars and accreditation bodies – form the foundation of formal ISO 14001 conformity assessment.

It must be noted, however, that the ISO EMS standard does not *require* registration but in fact allows for a "self-declaration" of conformance as well as for the use of an unaccredited registrar. Obviously, if a large number of companies follow these less-rigorous routes, the standard's reputation may suffer.

Typically those organizations seeking registration of their EMS have a mix of internal and external reasons for doing so. In such far-flung enterprises as IBM, for example, the internal value of managing a number of facilities scattered across the globe to a single EMS and set of internally set objectives is quite substantial. (See "Try It – You'll Like It," by IBM's Wayne Balta and Gayle Woodside, on page 36.) All employees and shareholders can see the value the company places on environmental protection and quality improvement activities. Viewed from a global implementation perspective, the certification to the ISO standard also provides some external basis for assuring that the registered organization knows, and that its EMS supports, compliance with local "black letter" law even in the absence of governmental regulatory enforcement capacity. And IBM's worldwide registration by an accredited registrar provides a reasonable basis for relying upon its representations that it manages to a consistent set of globally acceptable standards. For the small enterprise, the motivations – and rewards – may look very different.

There are external reasons for registration as well as internal. Specific customer requirements, access to markets, and access to voluntary governmental initiatives such as Project XL are among the possible motivations. There is also a more generalized recognition of the value that a broad set of stakeholders – communities, regulatory agencies, and environmental and consumer groups – might place on an ISO 14001 registration. Admittedly, the present level of knowledge among most external and internal audiences about third-party registration is low. To build the credibility of third-party registration, this system must start by showing its integrity and rigor.

In the United States there is a single national accreditation program for ISO 14001 that is carried out under the joint auspices of the American National Standards Institute and the Registrar Accreditation Board. A U.S. EMS Council, whose members are balanced among environmental, governmental, business, and accreditation interests, has developed program criteria for the accreditation of registrars and votes on each application. Each country may create its own accreditation body and process, subject to some international norms.

Final comments on a single draft international guide for EMS accreditation have been submitted by national accreditation bodies, including the U.S. EMS Council. National representatives have already agreed to accept and apply the new guide without additional requirements. This commitment may prove to be problematic. Interpretation of key issues, conflict of interests, for example, may differ from country to country. Because the verification process itself needs to show validity, questionable or backward steps in the rigor of assessment of third-party registrars would undermine confidence in both the standard and those implementing it, in domino fashion. Institutions and processes are at a critical stage – of building credibility or fatally undercutting it. External verification is a crucial pillar on which the future of ISO 14001 rests.

At present, the first tentative steps are being taken toward mutual recognition agreements between national accreditation bodies. Some standards professionals hope for an eventual worldwide, or at least multilateral, recognition system involving all major standards-using countries. At the moment, however, accreditation practices differ from country to country. Moving too quickly to a mutual recognition scheme on a broad scale may jeopardize the emerging credibility the U.S. system has gained. Steps toward international mutual recognition should be made only when there are adequate assurances of equivalency and a means of periodically re-confirming those assurances. This is exactly the approach now being taken between the United States and Canada on a mutual ISO 9001 recognition agreement. It applies with even greater force where external parties, such as the public and government agencies, in addition to business customers and suppliers, must have confidence in the declarations made by registrars of ISO 14001 conformance.

Registration must show that the company in question has demonstrated by clear and convincing evidence to a professional third-party assessor that its EMS is designed and implemented according to its plan and the ISO standard. This verification can provide confidence to those making judgments about whether the organization will meet legal compliance and other external and internal objectives. The registrar must consider the data it gathers on the organization's legal compliance and the manner in which its EMS responds to non-compliance. For example, the registrar may find that a legal violation indicates a failure to address one or more elements of the EMS standard. Conversely, it may find that the organization's EMS responded as designed and corrected the non-compliance, and addressed root causes such as training and assignment of responsibility in accordance with the standard. In the latter case, there is assurance that similar exceptions are unlikely to recur. In any event, a registrar would not base its decision on whether or not to register an organization (or to suspend its current certificate) unless the compliance failure is indicative of a major EMS deficiency. The test is always of the system and EMS conformance to the requirements of ISO 14001 in both design and implementation.

Is this an adequate test? Consider the traditional legal compliance audit. While it may have value, it is by nature backward looking. It can say little about the likelihood of future compliance failure. A systems audit, by contrast, should assess organizational capacity to assure compliance, now and in the future. This is a critically important role, but it often gets less attention than the louder debate over the standard's lack of an absolute compliance requirement. There is no point in having a rigorous accreditation and registration system if the standard lacks in meaningful requirements.

The final challenge facing ISO 14001 is the *challenge of engagement*. If the EMS standard is to realize the promise of its drafters and proponents, and to create the return on investment that those businesses implementing it hope to earn, then those in environmental public interest organizations and governmental regulators must understand and feel involved in developing the standard and conformity assessment practices. And that engagement can come about only if these parties are shown this new tool has merit and is delivering on its promise.

ISO 14001 is a new kind of standard. It involves a range of interested parties who fall outside the usual set of customers and suppliers. These new stakeholders may include regulatory agencies, purchasing agencies, sub-national units of government, and a myriad of non-governmental environmental, consumer, and other public interest organizations. ISO encourages these new parties to be involved in the standard's development by working with the relevant national standards body.

ISO, the EMS standard's body and its national members, have an immediate opportunity to engage these non-traditional interests in the standard's development process – and by so doing to provide additional evidence of merit. This opportunity is present in the ISO 14001 reassessment and revision process currently underway. Initiated by ISO late last year, this process is centered on creating greater compatibility between ISO 14001 and ISO 9001, but it opens the door to other revisions. The external communications component of ISO 14001, as indicated, has garnered interest from individuals on the U.S. TAG, especially those from government at federal and state levels, and from the public interest community. Generally, their interest, which is shared by some of the business community, is for a more definitive requirement for external communication about a company's EMS. In May, the full ISO Technical Committee meeting in Seoul, Korea, will take up specific amendments on the matter of external communication. The U.S. TAG, supported by U.S. corporations, could play a key role at this important meeting. Fairly or not, the outcome of this revision proposal will strongly influence outside views of the value of ISO 14001 for performance leadership.

The rapid transformation of the world economy into a closely linked trading system in the last decade has thrust ISO into a pivotal role. In a meeting last summer with the chairman's advisory group for the ISO Technical Committee, a group of NGOs expressed their concern that some national standards bodies had done little to facilitate or include participation by public interest representatives in their national-level standards development discussions or process. The ISO Technical Committee approved a voluntary survey of the 55 participating national standards bodies to gather data on how NGOs participated in the national organization. A task force of the chairman's group was also assigned to meet with NGO representatives to request their views on ISO 14001 and participation in the ISO process.

A survey of both standards groups and NGOs will be presented and discussed at the Technical Committee's meeting in Seoul. While increased interest by and support from NGOs in ISO 14001 is far from assured, it is a virtual certainty that, unless ISO and its national members, such as the U.S. TAG, prop open the door wider to participation by NGOs and other interests, that those interests would more likely act like snarling sheepdogs than like Babe.

ISO 14001 does not promise a short cut or quick path to sustainable development. ISO is a long journey fraught with many challenges. But the EMS standard, for all its limitations, has intriguing potential to reshape the way in which business regards the environment and, consequently, the ways in which other parties look at business's role in environmental protection.

The challenges – which amount to implementing organizations' showing their commitment to sustainable development through inspiring goals and demonstrated environmental performance through ISO EMSs – are not insurmountable. Attention and concerted effort are needed, to be sure, but a failure to meet one or more of the challenges will make the path to a greener future that much harder to find.

Babe chose an unorthodox career. He could, undoubtedly, have been happily mired in the same environment as his brethren had for generations. But Babe gained recognition and acclaim by picking an unlikely goal and achieving it by unorthodox means. Business can be like Babe, articulating an unprecedented position of leadership on environmental matters and showing the way. And ISO 14001 just might be that common language that leads to greener pastures. •

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