BOOK REVIEWS

CURT KAMPMEIER CMC
EDITOR

Competitive Environmental Strategy: A Guide to the Changing Business Landscape

Andrew J. Hoffman (Island Press, Washington, DC; 2000; ISBN 1-55963-772-2) $30

REVIEWED BY ALIS VALENCIA

Why, you may be thinking, should I pay attention to a book on environmental strategy? The answer is straightforward: All signs suggest that we are rapidly approaching a time of environmental crisis that will leave no one—and no business—untouched. One of the clearest indicators is the World Wildlife Fund's *Living Planet Report 2002,* which notes that as of 1999 human consumption of natural resources exceeded the Earth's biological capacity by about 20 percent. Such high levels of consumption are causing global warming, desertification, lack of clean freshwater for one-fifth of the world's population, widespread destruction of natural habitats, species extinction, and much more.

As a consultant, you have the opportunity to help members of the business community both mitigate environmental damage and find new business opportunities by altering their strategic outlook. This involves a shift in mindset: Imagine that you are assisting a client with strategic planning and find that the firm will need to conform to new environmental regulations within five years. Which of the following options would you recommend? (A) Modify existing facilities, equipment, or processes to gain regulatory compliance, or (B) Seek opportunities to develop less problematic practices and create new products or services.

Option B seems the logical choice for any forward-thinking company: View the growing need for environmental protection as a source of economic challenge, opportunity, and innovation. But for the past generation, Option A has been selected by most companies because they treat environmental concerns as cost-generating side issues to be dealt with by technical specialists. So unless you are an environmental consultant or a marketing consultant who helps companies develop customer-attracting "green practices," it is unlikely that you have had much if any professional need to take environmental issues into account. Such conditions are unlikely to continue, however, because those companies that incorporate environmental values into their business strategy will be much more likely to thrive in the long run.

An environmental perspective encompasses much more than "pollution deriving from factory releases or vehicles or runoff." Indeed, any source of environmental harm qualifies for inclusion: Use of nonrenewable resources (oil, coal, natural gas), habitat (land, air, water) destruction, overuse of renewable resources (water, fisheries, forests), use of toxic chemicals, waste production, and so on. All businesses have the opportunity to adopt nonharmful practices and use products that have been created through such processes.

In *Competitive Environmental Strategy,* Andrew Hoffman maps the new world faced by companies choosing to create environmental strategy by integrating environmental and economic objectives. Viewed through the lens of environmentalism, notes Hoffman, answers to some of the fundamental questions of business—What is your product? What are your raw materials? What is your waste? Who are your competitors? Who are your partners?—take on a whole new aspect. For example, consider the imperative to reduce auto emissions. Since the 1960s, automakers and the oil industry have battled over whether engine design or fuel composition should be altered to meet emission limits, with first one, then the other "winning." Now that zero-emission, electric cars have been developed, a new question emerges: Which industry should manufacture vehicles run not by gas but by computers, servomotors, and switching equipment? Automakers or companies like Siemens AG and Motorola, Inc.? And what about the oil industry? Should a company continue in the business of providing natural gas and petroleum-based fuels or define its business more broadly as energy provision? Companies like BP Amoco and Shell, with their investments in solar power generation, suggest the answer.

Just as companies face an array of stakeholders, they face an array of what Hoffman terms "drivers of environmental protection." *Regulatory drivers* are the environmental laws and regulations that constitute the inescapable requirements for meeting government standards and requirements for disclosure. Companies have to meet the requirements of each country in which they do business, which provides opportunities for both raised and lowered standards. For example, U.S. manufacturers must meet increasingly stringent EU requirements for the recycling of packaging, consumer electronics, appliances, and autos. Or they can escape emissions or discharge limits by moving plants to less-regulated locations in Mexico or Southeast Asia, as Shell Oil and Bechtel Corporation have done by building a power plant in Mexicali, Mexico.

International drivers include the international trade agreements (GATT, WTO, NAFTA); environmental agreements (for example, restrictions on the transport of hazardous materials, distribution and use of pesticides, and the Kyoto protocol); and lawsuits across national borders. The August 2002 World Summit on Sustainable Development in Johannesburg, South Africa, was an unproductive forum for achieving new international agreements, but it was the setting for the creation of a new partnership between business (World Business Council for Sustainable Development) and environmentalists (Greenpeace).

Sources of financial capital, members of a company's value chain, and insurers constitute a firm's *resource drivers*. A company's ability to continue business operations as desired will be affected increasingly by its environmental performance. Reports of regulatory transgressions will alert shareholders to the possibility of poor management practices and insurers to heightened risk of claims, or buyers may demand the removal of a toxic substance in a product. Insurance companies, for example, are early institutional red flags concerning environmental risks—global warming, for example—that can be mitigated by company actions. *Market drivers*—consumer preferences, competitor practices, and trade associations—act as signals of opportunity (for example, renewable energy sources such as wind and sun) or of competitive pressures (hybrid—gas- and electric-fueled autos sold by Toyota and Honda, for instance) for companies.

Environmental organizations, communities, the press, religious institutions, and the courts are among the *social drivers* companies encounter. People, individually and collectively, focus the public's attention on corporate environmental performance, good and bad. Solutia (formerly Monsanto Company), recently found liable for releasing tons of toxic PCBs over several decades in Anniston, Alabama, and GE, ordered to clean up New York's Hudson River, are example of how citizen and court action can reveal company efforts to avoid responsibility for toxic waste. Such practices will often constitute the first signs of a change in social mores concerning environmental practices.

What does all this mean for companies? Their business environment has assumed another level of complexity *and* the opportunities for new ways to increase revenues and reduce costs have multiplied. To the more traditional realms of regulatory compliance, operational efficiency, and risk management, add capital investment, market growth, and strategic direction, as well as product design and process development.

Let's say that your client wants to explore expanding its manufacturing capacities. Sales are just keeping pace with demand, and it looks as if there is good opportunity to build market share. Additionally, building new facilities will allow the incorporation of energy-saving design and materials. You point out that trends in environmental protection suggest that within 10 years the EU will ban products containing some of the chemicals the firm uses currently and that the United States will require producers to take back their products at end-of-life for recycling. Building new facilities will provide an opportunity to incorporate new product design and manufacturing processes that will help the company maintain its market presence. But there is more: Perhaps the company should explore whether there are alternative ways to meet the same customer needs. The classic example of a company changing its strategy to minimize environmental impacts is Interface, Inc., a carpet maker. In addition to adopting the goal of zero waste, which has saved millions of dollars, the company offers carpet for rent rather than purchase. Interface is now providing a service as well as selling a product.

Hoffman expects that there will be a shift in environmental priorities over the next few decades. Currently, the primary foci are "fixing the damage to the environment" (remediation and restoration) and measures to treat pollutants (control). These will gradually be replaced by efforts to avoid causing harm.

To shift from reactive environmental management to proactive environmental strategy, companies must make a corresponding shift in organizational culture, structure, reward systems, and job responsibilities.

Environmental protection becomes the concern of all company functions—operations, accounting, marketing, human resources, strategic planning, legal, R&D, and so on. This represents major organizational change, and hence opportunities for management and other consultants who adopt environmental perspectives themselves. For example, a firm may need to reconfigure its organizational structure, create a new appraisal and reward system that recognizes integration of environmental and economic interests, and educate employees about the company's new environmental values.

Additional challenges lie in wait for the environmentally enterprising company. Hoffman points out, for example, that environmental standards are in constant flux, educational curricula may not provide individuals with suitable preparation to address environmental issues, economic and physical infrastructures have not kept pace with needs, measures of economic performance are incompatible with environmental protection, and international trade agreements such as the WTO and NAFTA subvert domestic efforts to protect the environment. Clearly there is much to be done just to get on track with environmental strategies.

Hoffman provides a comprehensive survey of what environmental strategy means for firms that decide to embrace the challenges—and opportunities—associated with the imperative to avoid causing additional environmental damage. The book was written to serve in part as a textbook and shows it, not only in its rather dense exposition but also in the many lists, recommended readings, and evident care taken to avoid expressing any bias concerning controversial issues. The two appendixes, one on U.S. environmental laws and the other on resources for environmental information, provide handy guides for getting up to speed on current issues and trends.

If you wish to keep on top of emerging issues for the business world, I recommend reading *Competitive Environmental Strategy*. As far as I know, there is no other book that introduces the notion of environmental strategy to business.

Alis Valencia is Editor of C2M. She has written several articles on the relation between business practices and environmental issues.