EMS AND SUSTAINABILITY: THE KEY IN THE BANKER'S TOOLBOX

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INTRODUCTION

Historically driven by regulatory compliance requirements and liability concerns, environmental management in financial institutions is slowly, but gradually evolving into a business management system whose applications move beyond pure risk management, and toward long-term sustainability. This evolution, however, is not without pain. While a growing number of financial institutions have taken the first step by drafting an environmental policy, implementation continues to be a difficult choice among financial managers with competing priorities and resources. Fortunately, establishing an environmental management system (EMS) has demonstrated repeatedly to be an excellent investment.

Implementation of an environmental management system reduces investment and lending risks and can provide a mechanism to move toward sustainability. Surprisingly, only a few EBA members have a formal EMS in place, while most, if not all, members have a stated environmental policy. What then is the value of an EMS, how is it structured, and how can it help financial institutions? How strong is the connection between EMS and sustainability? This paper seeks to address these questions.

STRUCTURE AND DEFINITIONS: EMS AND ISO 14001

An environmental management system (EMS) is a formal business system that allows a company to manage, measure, and improve the environmental aspects of its operations. It does this by setting specific goals and checking progress toward meeting those goals. Continual improvement of the EMS is achieved through setting and achieving environmental goals, and confirmed through system audits. Internationally recognized standards for EMS exist and are collectively identified by the International Organization for Standardization as ISO 14001, and are probably familiar to many EBA members. ***However, the fundamental concepts of ISO 14001 may not be well known in the industry - particularly the concept of continual improvement. It is this concept that can help financial institutions manage environmental risk and move toward sustainability***.

ISO 14001 Concepts

The formal model of ISO 14001 EMS is the Deming PDCA (Plan, Do, Check, Act) cycle with the addition of an Environmental Policy component. This cycle is a *continual improvement cycle*.

The components of this cycle are briefly explained below:

Environmental Policy: A statement executed and maintained by upper management that sets and maintains the environmental goals of the organization.

Plan: A plan that establishes environmental aspects, impacts, objectives, targets, and programs of the organization.

Do: The activities and resources (infrastructure, manpower, and finances) that are used to accomplish the plan.

Check: The activities (monitoring, measuring recording, and corrective actions) that track and maintain conformance to the plan.

Act: The activities of upper management which confirm that the environmental policy is supported by the EMS, and makes modifications to the EMS to assure continual improvement.

Continual Improvement and the AIOT Process

At the heart of this cycle rests the central concept of ISO 14001 and EMS: The aspect-impact-objective-target process (AIOT). The AIOT process causes continual improvement to occur in the following manner. An aspect (one specific way an organization interacts with the environment) is established through a formal procedure that is developed by the organization. The environmental impact of the aspect is then determined. An objective is set to change the impact (typically to reduce detrimental effects) and a target (e.g., how much by when) is established to provide a metric to confirm when the objective is reached. When a target is attained, another target is set relative to the objective, or other targets are actively being pursued simultaneously with regard to the objective or other objectives. As time progresses and targets are attained, environmental performance automatically improves (hence, continual improvement).

Initially, targets are associated with relatively critical environmental issues. As these targets are attained, subsequent targets are set on less and less critical issues until, theoretically, targets to reduce detrimental effects of the organization are no longer possible because there are no detrimental effects. At this point, the aspect-impact-objective-target process can switch to increasing positive environmental impacts of an organization. Theoretically, there is no end to targets that could be established to improve environmental impacts. This automatically reduces risk but, as importantly, becomes a driver for sustainability.

The key to the entire discussion is that the AIOT process lends itself to reducing risk. As the detrimental effects of an organization on its environment are reduced, risk decreases. Indeed, the very presence of an environmental program operated by an organization to reduce detrimental effects reduces risk.

THE SUSTAINABILITY FACTOR

Sustainable development is back in the news. This past August, the World Summit on Sustainable Development, also know as RIO+10, was convened in Johannesburg, South Africa. Considering the Summit's high and enduring profile, the event should serve as a reminder that a shift is occurring in how business is conducted, how government regulations are constructed, and how societies are embracing sustainability. For financial institutions this shift is becoming more acute as recent demonstrations suggest: WTO in Seattle (1999), Milan (2001), The World Bank in Washington DC (2000 and 2002). Financial institutions in particular are targeted for what is perceived to be their "power behind the throne" role in neither supporting nor implementing sustainable development practices. Again, implementation of an EMS can help with this perception.

As the fundamental concept of EMS, AIOT is in perfect sync with the fundamental concepts of sustainable development which were outlined in 1987 by the Brundlandt Commission: "development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs." The Brundtland Commission's report focused on three components for sustainable development: environmental protection, economic growth, and social equity. The implementation of an ISO 14001 EMS to address environmental issues of an organization will result in meeting each of these components with regard to the environment.

GETTING STARTED

Above all else, the case needs to be made to senior management that a EMS not only reduces risk, but there are other tangible benefits derived from adherence to sustainable practices, which should be viewed and taken as a whole package; i.e., as a business management system. Examples of additional savings other than risk include the following:

Operational Cost Savings: Increased efficiency through formalization and standardization of practices associated with implementing the environmental policy; e.g., standard institution-wide checklist of known and potential risks, formalized training modules for new investment officers and portfolio managers, tracking checklist of projects and operations, internal waste minimization through energy efficient lighting and paper and container recycling, etc.

Improved Public Image: As increased public disclosure, not only of investment and lending practices, but of operational procedures and processes, is growing, publicly displaying that your institution has an EMS in place (not just a policy) can be a boon for marketing a positive corporate image, enhancing client perception, promoting good community relations, and improving the institutions image with stockholders.

Investments and Insurance: Financial institutions with an effective EMS can claim they pose less risk making them an attractive investment and negotiate lower premiums from external insurers and lenders alike.

Overcoming the first step will undoubtedly be the most difficult challenge facing any institution. ISO 14001 produces a guide for the next step, and there are many additional resources and forms available to assess and implement an EMS. A few good starting points are:

International Standards Organization Home Page:	http://www.iso.ch/
American National Standards Institute	http://ansi.org/
SCS Engineer's ISO/EMS Site:	http://www.isocenter.com/

CONCLUSION

Despite the increasing awareness of financial institutions that environmental management can produce both economic and environmental benefits, many institutions are still left wondering how to begin to achieve what some refer to as a "sustainable operation". In some cases, this amounts to nothing less than a sea change in thought and operational structure that strikes fear in the heart of management. In other cases, a financial instiution may desire to become more sustainable, but there are doubts, uncertainty, and misinformation about how to get started on this course. First, is the distinct and very real economic gain that can be achieved through implementation of an EMS. Second, and equally compelling, is the environmental benefit derived from such an action and the positive public relations advantage it can generate when an organization can claim: "our financial institution, through our EMS, adheres to sustainable practices."

A tool currently exists to help financial institutions get on the path toward both environmental and economic prosperity right now. That tool is an Environmental Management System.