The Global Environmental Management Initiative (GEMI)

“CLEAR ADVANTAGE: Building Shareholder Value / Environment: Value to the Investor”

Published: March 2004
Vision: "To be globally recognized as a leader in providing strategies for businesses to achieve EHS excellence, economic success, and corporate citizenship."

Mission: "Business helping business improve EHS performance, shareholder value, and corporate citizenship."
GEMI EVI Project

Clear Advantage: Building Shareholder Value

Environment: Value to Business
Environment: Value to the Top Line
Environment: Value to the Investor
The Concept of Intangibles

• “Intangibles such as R&D, proprietary know-how, intellectual property and workforce skills, world-class supply networks and brands are now the key drivers of wealth production while physical and financial assets are increasingly regarded as commodities.” (from report on the Intangibles Economy to the European Commission)

• “Identifiable, non-monetary asset without physical substance held for use in the production of goods or services, for rental to others or for administrative purposes.” (The International Accounting Standards Board)

• “Intangibles” describes the human, intellectual, social and structural capital of an organization. (GEMI EVI report definition)
Why are Intangibles Important?

• 35% of institutional investors’ portfolio allocation decisions are based on intangibles like EHS performance [Cap Gemini Ernst & Young’s “Measures That Matter” study (1996), a survey of 300 sell-side analysts, 275 buy-side analysts, as well as interviews with portfolio managers.]

• According to the Organization for Economic Cooperation and Development (OECD), investment by public companies in intangibles such as brand, R&D and training has exceeded investment in tangibles like property, plant and equipment since 1997. [Low, Jonathan and Pamela Cohen Kalafut, “Invisible Advantage,” Perseus Press, Cambridge, MA, USA (2002).]
Why are Intangibles Important?

Top 100 greatest market cap firms for each year depicted, and total Plant, Property, Equipment (PPE) reported for same.

Source: Data: Compustat and CGEY analysis. Chart: GEMI EVI report.
Overview of Pathways Linking EHS to Shareholder Value

**Tangible Outcomes**
- Increased Profitability
- Improved Capital Utilization

**Intangible Assets**
- Customer Satisfaction
- Intellectual Capital
- License to Operate
- Reputation & Brand Image
- Reduced Risk

**Value to Society**
- Employee Satisfaction
- Environmental Protection
- Community Quality of Life

**Shareholder Value**

**Pathways**
- Product & Process Innovation
- Emissions
- Efficient Use of Resources
- Occupational Health & Safety
- Stakeholder Engagement

**License to Operate**
- Intangible Assets

**Quality of Life**
- Environmental Protection
- Community Quality of Life

**Reduced Risk**
- Reduced Risk

**Employee Satisfaction**
- Profitability

**Intangible Assets**
- Reputation & Brand Image

**Community Engagement**
- Customer Satisfaction

**GEMI**
EHS Excellence is an Indicator of Superior Management

Pharmaceutical companies receiving above average EcoValue21® ratings have outperformed companies with below average ratings by approximately 17 percentage points (1700 basis points) since May 2001.

Source: Innovest Strategic Value Advisors, 2002
Figure 2-5: Percent of oil and gas industry analysts who feel that selected EHS indicators impact the value of a firm.\textsuperscript{14}

Source: Cap Gemini Ernst & Young’s “Measures That Matter” study (1996)
Ten Intangible Value Drivers for Measuring EHS Performance

- **Customer**: The ability to develop customer relationships, satisfaction and loyalty.
- **Leadership and Strategy**: Management capabilities, experience and leadership’s vision for the future.
- **Transparency**: Does management communicate honestly and openly? Are its communications believed and trusted? Does it hold itself accountable?
- **Brand Equity**: Strength of market position. The ability to expand the market, perception of product/service quality and investor confidence.
- **Environmental and Social Reputation**: How the company is viewed globally with regard to environmental concerns, community concerns, regulators’ concerns, inclusion in “most admired company” lists, triple bottom line.
Ten Intangible Value Drivers for Measuring EHS Performance (cont’d)

- **Alliances and Networks**: Supply chain relationships, strategic alliances, partnerships.
- **Technology and Processes**: Strategy execution, IT capabilities, inventory management, turnaround times, flexibility, reengineering, quality, internal transparency.
- **Human Capital**: Talent acquisition, workforce retention, employee relations, compensation, what makes a “great place to work.”
- **Innovation**: The R&D pipeline, effectiveness of new-product development, patents, know-how, business secrets
- **Risk**: The ability to effectively manage the balance between potential liabilities and potential opportunities.
GEMI Member Value Driver
Case Studies

- Customer – Ashland Inc.
- Leadership & Strategy – DuPont
- Communication & Transparency – Bristol-Myers Squibb
- Brand Equity – HP
- Environmental & Social Reputation – 3M
- Alliances & Networks – Dow Chemical Company
- Technology & Processes – FedEx Express
- Human Capital – Intel
- Innovation – Johnson Controls, Inc.
- Risk – Novartis
The Clear Advantage Process – From Concept to Practice

STEP 1: Identify Key Value Drivers

STEP 2: Assess Potential Contributions

STEP 3: Develop Value Enhancing Strategy

STEP 4: Implement Strategy and Measure Results

STEP 5: Communicate to Management and Investors

STEP 6: Assure Continuous Improvement

GEMI®
“Every corporation is under intense pressure to create ever-increasing shareholder value. Enhancing environmental and social performance are enormous business opportunities to do just that.”

Gary M. Pfeiffer, Senior Vice President and CFO, DuPont

(As quoted in GEMI’s Clear Advantage: Building Shareholder Value)
Visit GEMI’s website to view and download a free copy of:

*Clear Advantage: Building Shareholder Value / Environment: Value to the Investor*

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