

# Federal Government Sustainability is Coming: Opportunity or threat for your company?

*Our study of 25 leading contractors turned up some surprising results.*

The Federal government has made the connection: environmental sustainability can significantly reduce cost and drive efficiency. Further, it's promoting leadership in environmental sustainability as the next frontier for innovation, ideation, and ultimately, job creation and economic growth.

The government is implementing an integrated strategy for achieving environmental sustainability.<sup>1</sup> This strategy requires collaborating with government contractors to improve environmental practices and deliver new, environmentally friendly products and services. However, of the 25 leading government contractors

studied? How can your firm best serve the Federal government's environmental sustainability needs?

## Why an integrated strategy?

Successful contractors know that a clear understanding of customer mission and strategy is critical for converting bids to winning contracts and for building relationships through successful project delivery. The best contractors anticipate their customers' challenges and the types of solutions customers will need. These contractors know it's difficult, if not impossible, to design successful solutions when their understanding of a problem is several steps behind their customers'.

## 25 Leading Federal Government Contractors

<i>Accenture</i>	<i>IBM</i>
<i>BAE Systems</i>	<i>JBMorgan Chase</i>
<i>BNY Mellon</i>	<i>Kaiser Permanente</i>
<i>Boeing</i>	<i>KBR</i>
<i>Blue Cross Blue Shield</i>	<i>L-3 Communications</i>
<i>Booz Allen</i>	<i>Lockheed Martin</i>
<i>CSC</i>	<i>Northrop Grumman</i>
<i>Dell Computer</i>	<i>PricewaterhouseCoopers</i>
<i>Deloitte</i>	<i>Raytheon</i>
<i>General Dynamics</i>	<i>SAICC</i>
<i>General Electric</i>	<i>United Technologies</i>
<i>Hewlett Packard</i>	<i>Verizon</i>
<i>Honeywell</i>	

we studied, only three (Dell, HP, and IBM) are fully prepared to assist the government in implementing an integrated strategy. Another five contractors are in various stages of ramping up.

This situation creates a huge contracting opportunity—or a threat for those who fail to take note.

What makes Dell, HP, and IBM better prepared than the other contractors we

studied, that is exactly where many contractors are.

Of the four strategies the Federal government could have chosen for dealing with the environment, it opted for an integrated approach.<sup>2</sup> That approach sets challenging goals for reducing the full range of environmental impacts and treats

<sup>1</sup> Executive Order 13514, *Federal Leadership in Environmental, Energy, and Economic Performance*, Released October 5, 2009.

<sup>2</sup> The three other strategies are: Regulatory - comply with laws and regulations; *Ad hoc* - complete one-off projects that reduce environmental impact; or Silo - reduce each environmental impact (energy/carbon, water, etc.) independently.

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environmental impacts as interrelated. Thus, solving just one impact at a time is not enough. All impacts must be addressed and balanced at the same time, keeping in mind their relationship to one another.

While many of the contractors we studied have been implementing an environmental strategy of some type, only Dell, HP, and IBM have years of experience implementing an integrated strategy for environmental sustainability. They are the only ones that offer entire lines of products and services designed to reduce a group of environmental impacts simultaneously. And only they have extensive first-hand experience developing and using the new environmental tools and techniques in the same way the government must do to meet the Executive Order's requirements.

The newness of Executive Order 13514 likely allows breathing space for contractors pursuing *ad hoc* or silo strategies for environmental sustainability.<sup>3</sup> Agencies themselves are still educating their staffs and realigning their own approaches to comply with the Executive Order. Over time, however, contractors that continue relying on *ad hoc* or silo environmental strategies are likely to find themselves offering sub-optimal solutions. *Ad hoc* solutions often do not go far enough toward mitigating environmental impacts and silo strategies often reduce one environmental impact while increasing the environmental damage in other areas. Consequently, contractors, and the government organizations they serve, may be at risk of incurring unexpected costs, delays, and negative publicity. (See sidebar.)

## So What?

New criteria for success favor contractors who understand the government's integrated environmental sustainability strategy—and its implication for their competitive position.

As environmental sustainability becomes embedded in government practices, new performance criteria for contractors are also likely. In all probability, contractors will be selected based on their:

- Experience implementing an integrated environmental strategy,
- Line of products and services that enable the government to achieve multiple environmental goals simultaneously,
- Track record of successfully increasing their own environmental sustainability, and
- Successful programs for engaging their supply chains and other stakeholders in environmental sustainability.

Today, these criteria are measured on a subjective basis. However, as more widely accepted standards for measuring and reporting environmental impacts are developed, we expect to see much more concrete measures. In the future, we

expect proposals to specify a project's energy, water, pollution, waste, and other environmental impacts as well as the size of the contracting team's own environmental footprint.

Measuring our universe of 25 leading contractors against the Federal government's likely environmental sustainability performance criteria suggests ample room for improvement. Only Dell, HP, and IBM do a good job of meeting the criteria today. They distinguish themselves by reducing multiple environmental impacts simultaneously, both in their products and services and in their internal operations.<sup>4</sup> All three contractors are also working with their supply chains to increase their suppliers' environmental sustainability.

*Natural gas extraction via hydraulic fracturing in Marcellus Shale in Pennsylvania illustrates the consequences of addressing each environmental impact within its own silo. The U.S. has significant natural gas reserves and burning natural gas produces lower carbon emissions than burning petroleum; that's the good news. The bad news is that extracting gas via hydraulic fracturing requires very large quantities of water that become tainted with salt and other chemicals during the drilling process. Discharged drilling wastewater polluted the Monongahela River, leaving chemicals and salty sediment that corroded machinery at big neighboring companies, ruined dishwashers, and probably killed 10,000 fish.† This was not just a bad result for the environment; it directly affected the economics of the project and created negative publicity and political fallout that damaged corporate goodwill.*

*Perhaps this sounds like business as usual. Rapidly, it's becoming business as it used to be. Organizations that take an integrated approach to environmental sustainability are finding innovative ways to avoid the negative consequences of their actions and raising the performance bar for their competitors. In the Federal government contracting space, competitors like Dell, HP, and IBM save time, money, and reputation—and improve stakeholder value—by pursuing integrated environmental strategies.*

† <http://www.post-gazette.com/pg/09277/1002919-113.stm>

Significant gaps in the performance of the remaining contractors provide opportunity for those outside our study

<sup>4</sup> <http://www.epeat.net>. The EPEAT (Electronics Product Environmental Assessment Tool) program evaluates desktop PCs, laptops and displays based on 51 environmental criteria. Compared with conventional products, all EPEAT-registered computers include reduced levels of toxins, improved energy efficiency and are easier to upgrade and recycle. Dell offers 103 EPEAT-registered products; HP offers 201.

<sup>3</sup> Ibid.

group to extract market share by executing sustainable practices and articulating their environmental performance—credibly. Furthermore, the breadth and depth of the government’s integrated approach can encourage new players with strong environmental success to pursue (and win!) government awards.

The likely winners from the government’s push for sustainability are Federal government contractors that are already implementing an integrated strategy as well as those contractors that do so quickly, now. They already have existing agency relationships and they already know how to play in the government’s sandbox.

There are also likely to be some losers among existing government contractors. We expect some new players to supplant contractors that do not adapt quickly enough; for example, suppliers who currently offer environmentally sustainable products and services in markets other than government contracting, environmental NGOs<sup>5</sup> (e.g. World Wildlife Fund) with years of environmental experience, or government contractors for Canada, Australia, Europe, etc. that can transfer their environmental capabilities to the U.S.

### What to do?

Take action now to ensure you are a winner. The Federal government’s integrated approach to environmental sustainability creates a compelling and exciting opportunity for contractors who take the time—right now—to assess their competitive positions and focus on the environment as a core strategic priority. Conversely, it presents a serious business risk for those who fail to acknowledge the importance of environmental sustainability in their pursuit of Federal contracts and competitive position.

First, determine which of the four main environmental strategies your organization is pursuing today.<sup>6</sup> Next, determine where that strategy puts you in the marketplace today. If you maintain your current activities, how well will you be able to meet the procurement needs of your target agencies as they reach for greater environmental sustainability? What will make your solutions better than your competitors’ solutions? Be sure to consider new approaches by your competitors; quite a few of the contractors in our study are taking a fresh look at the environment.

Next, if you are not already pursuing an integrated environmental strategy, compare the risks and benefits of continuing your current strategy with those of adopting an integrated approach. Should you change strategy? If so, create a specific plan for what to do differently in order to make the change and capitalize on your expanded opportunities.

### We Can Help.

Sometimes, an experienced external view sheds important light on the situation. We can help you to assess your current environmental strategy and competitive position, and identify critical levers you can pull to improve your position. And most importantly, we can help irrespective of where you are currently. We collaborate closely with you to provide a structured approach that fits your organization and incorporates the very best thinking and practices regarding environmental sustainability. Our goal is to ensure that you have the right strategy and capabilities in place to succeed long after we are gone.

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<sup>5</sup> NGOs=non-governmental organizations

<sup>6</sup> If your strategy is not obvious or you don’t have a strategy, then, by default you’ve chosen either the regulatory or *ad hoc* strategy.