

# A new vision: ERM updates its growth strategy

**ERM used the tough times of 2009 to reflect on its business strategy. Erin Gill speaks with chief executive John Alexander**

When recession hit the global economy, management teams leading technical consultancies had to think quickly and act effectively to protect their businesses. For many, cutting costs and then hunkering down to wait out the worst of the recession was a tactic that proved both necessary and wise. As *Environment Analyst* has reported, one of ERM's short-term reactions to recession was a policy of encouraging large numbers of staff in Europe to accept temporary cuts in pay in return for curtailed working hours ([Environment Analyst, 06-May-10](#)).

Once initial measures to reduce overhead costs were introduced, ERM chose to respond to the slower pace and uncertain atmosphere that recession brought to reconsider its business strategy. ERM chief executive John Alexander explains: "By the middle of last year, about June/July 2009, we knew we had done what we needed to manage our cost structure so that we were in a sound position. We decided the time had come to plan for what would happen after the recession. So we began a strategic review. Every member of staff had the opportunity to offer input. Out of the process, which lasted about six months, came our new strategy which is called *One Planet, One Company ERM*".

The fundamental idea that lies at the heart of ERM's new corporate strategy is the global nature of its business and the potential this offers for further growth. While there are many consultancies offering environmental expertise on an international basis, ERM is one of only a small number that can be described as having developed into a truly globalised environmental consultancy. With 3,300 staff in 137 offices in 39 countries, Alexander describes ERM as "the most global company in our space – by a long way". Beginning in the early 1990s, ERM began to build a global network of offices in order to serve a client base that has become increasingly dominated by very large multinational, private sector companies. "There are many consultancies looking to replicate what we have built," observes

Alexander. But trying to do that in a hurry after a recession is not as easy as it looks. It took us a long time to build the strength of the global network we have today and we've done it pretty much organically."

## Supplier consolidation

ERM's new strategy seeks to build on and, indeed, to deepen the global nature of its business. Although recession has slowed growth in many of its markets, globalisation



**Water resources will be the next environmental pressure to exercise minds in corporate boardrooms, argues Alexander**

of the world economy shows no sign of unravelling and ERM's senior management team believes that further expansion will be achieved by continuing to evolve to meet the needs of the world's largest private companies. One of ERM's priorities is to focus on winning as many framework-style contracts as possible with clients that operate within the most globalised sectors. "In some ways, recession has prompted clients faster down a route of consolidating their purchasing," notes Alexander. "Many very large companies, particularly US-headquartered firms, have reduced their number of suppliers and centralised further their purchasing. As a consultancy, you either have a global footprint and are big enough to respond to such clients – and you're in – or you don't, and you're not."

While Alexander acknowledges that there remains a role for smaller consultancies,

especially those with technical excellence in a few, specific areas, he believes such firms are less likely in future to work directly for large private sector clients. Instead, the trend toward large, multidisciplinary consultancies working for big-name clients and subcontracting on an as-needed basis to niche consultancies is likely to accelerate. "Our clients want one report from one consultancy – if they have a niche requirement they want us to hire the consultancy for them and we report to the client," explains Alexander. "That way they get integrated advice based on our own work and the input from the niche firm. It's much better than them getting two sets of input that may or may not dovetail neatly."

Another priority for ERM, as set out in its new strategy, is to sell more services in more geographies to existing clients. Over the years, many phrases have been coined to describe this challenge; these days talk of "leveraging potential" is a particular favourite. Whichever term is used, ERM's decision to focus greater effort on identifying opportunities to provide additional services to existing clients makes excellent business sense. "We think we can get more from our global network of offices and our clients can, too," says Alexander. "When we have a relationship with a client in one place, it means we will not seek just to build that relationship solely for local benefits, but our staff will look beyond their local geography or practice area and think about what the company's entire capability is and what the client's global needs may be."

Business theorists tend to be enthusiastic about this approach to business development since it seeks to achieve organic growth in a productive and efficient manner by transforming latent opportunities into concrete work. Nevertheless, it can be easier said than done, since selling more services to existing clients requires staff to think and act entrepreneurially – and, let's face it, an entrepreneurial mindset tends not to be possessed by the majority within any business. ERM will need to take steps to ensure "we have enough people who have a common understanding of what our capability is... and that we can present that in a consistent way to our clients," admits Alexander. He adds that there is also work to do to ensure "we

have systems, tools and incentives that encourage our people to work together” and that it may be necessary to remove “internal barriers, so there isn’t anything that would stop people working together”.

Part of ERM’s strategic review process also involved clarifying the client sectors that fit with what Alexander refers to as “our global footprint and high-quality, value-added business consultancy framework”. One such sector is oil and gas, a sector in which ERM is already strong. Another is mining. The power sector will also be a priority. Although it is a more fragmented sector than oil and gas and mining, growing demand for energy and a simultaneous need for sectoral transformation to achieve significant carbon emission reduction are expected to drive demand for expertise offered by environmental consultancies. In addition, ERM will continue to serve large manufacturing clients to meet both regulatory compliance challenges and to tackle issues relating to sustainability.

Another idea to emerge from ERM’s strategic review process is the notion that the days of describing the company primarily as an environmental consultancy are numbered. With clients increasingly viewing risk in a holistic fashion, a recasting of how ERM describes itself is necessary. “We feel that the market is changing and that using the term environmental consultant is almost a ‘90s

and noughties approach. We are much more sustainability consultants now, which incorporates all of the services that come under environment, health, safety and social consultancy – they are all still needed but now they’re wrapped together into a broader sustainability approach to understanding our clients’ needs and leading them to a better outcome,” explains Alexander.

**Preventing corruption**

In addition to recession, last year ERM came face to face with the issue of corruption. The former managing director of its Chinese business, Wang Yong, was named – but not charged – in a legal case involving the former deputy director of the Shanghai Environmental Protection Bureau, Yan Shunjin, who was pursued by authorities for accepting undisclosed payments totalling in the region of £100,000 from a series of companies and individuals, including ERM’s Yong (🔗 [Environment Analyst, 17-Dec-09](#)).

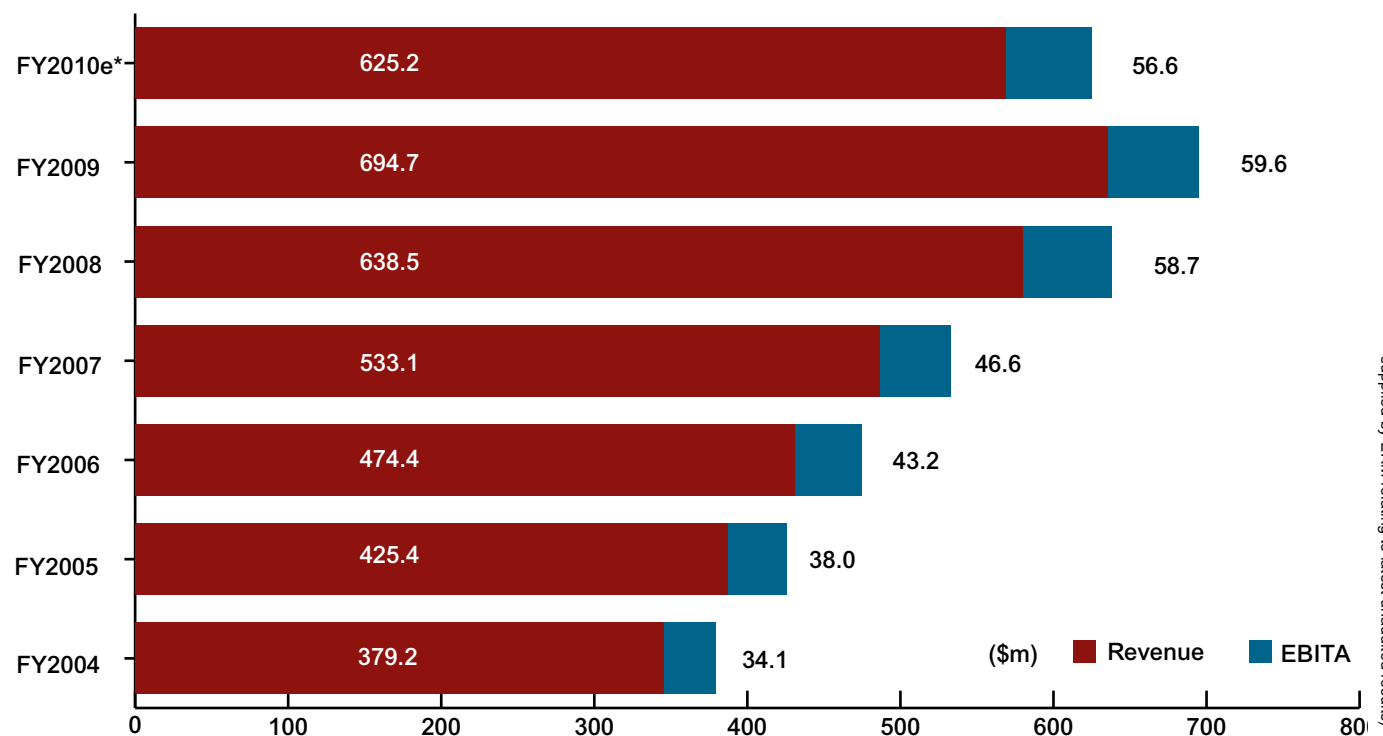
ERM’s response was to communicate with key clients, being entirely transparent about the situation and the measures being taken both to investigate the case and to prevent any further instances of corrupt or questionable behaviour by staff. “When we became aware of the issue we proactively went to our key clients and said ‘this is the situation that is emerging’. This is before it

was in the Western press,” explains Alexander. “We hired a law firm that is experienced in this field to undertake the investigation and that has often undertaken similar work for our clients. So our clients recognised the law firm and the process we were following as one they themselves have followed when they have experienced similar issues.”

When the investigation was complete, its findings were reported to ERM’s key clients, along with an explanation of preventive measures being introduced. “In most cases our clients closed files on it. In one or two cases, they said ‘we appreciate all you’ve done, but we are particularly sensitive to this issue – often where they themselves have been in a similar situation more than once and at several orders of magnitude higher. Those clients asked for additional information and for further commitments about what we were doing to prevent it from happening again,” admits Alexander. Asked whether ERM lost any clients as a result of the Chinese corruption scandal he says no, although he acknowledges that there is no way of knowing for sure if the case has made it harder to win new clients.

One way of looking at ERM’s public brush with corruption is as a rite of passage. “It is one of the challenges of running a global business. Anyone who thinks that running a business with 137 offices in 39 countries is as easy as running one office in

**ERM 7-year global gross revenue & operating profit (EBITA)**



one country is misinformed,” asserts Alexander. “The positives are that there is a great network to service clients, but the downside is that you have to manage that network effectively and make sure you are operating to the highest standards everywhere.” Needless to say, greater vigilance and a determination to maintain the highest standards features high on ERM’s agenda.

**Responding to recovery**

During recession, manufacturing proved ERM’s strongest sector, with client demand remaining reasonably strong. To a large extent this was because so much of the work the consultancy undertakes for manufacturing clients relates to non-discretionary, compliance-driven spend. ERM is beginning to experience stronger demand from oil and gas clients, which are reversing the sharp cuts they made in spending now that the price of oil has both increased and become less volatile. However, the mining sector is recovering more slowly, says Alexander.

Considering things on a geographic basis, ERM’s Asia Pacific business, which includes Australia, grew in 2009 and continues to do so. Projects that were deferred last year in Europe and North America are being revived, although many clients continue to be reluctant to commit funds to large, multi-year projects and prefer to commission work in smaller chunks.

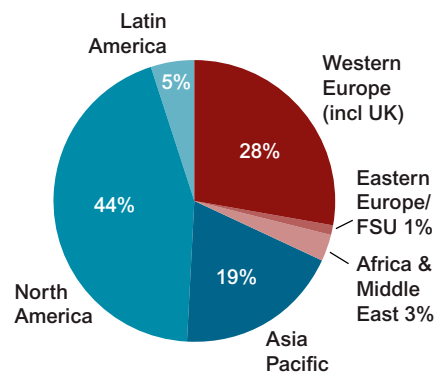
Looking ahead and thinking about the type of strategic advice ERM expects its

clients to be seeking, Alexander mentions two areas in particular. The first is the issue of how clients’ business processes and offerings might be at real risk due to climate change and other environmental pressures. “We see clients becoming a lot more considered in their approach to sustainability. I think they will be spending money on sustainability, but it will be focused on real business alignment issues, as

resources,” says Alexander. While he is reluctant to name names, he will admit that ERM has been working with producers of fast moving consumer goods as well as clients in the automotive industry that are concerned about whether their current product line-ups are sustainable when issues such as a changing climate are factored in.

While climate change has risen up the agenda of many of ERM’s clients, Alexander believes water will be the next big environmental issue to reach corporate boardrooms: “There are companies with a massive dependency on water. Currently, water is priced in terms of the cost of delivery as opposed to its intrinsic value or its alternative uses. But with increasing demand for water and potentially-increasing drought/flood cycles in many areas of the world, the pressure of managing water and water resources will become a huge issue for many companies.”

Compared to the first half of 2009, the atmosphere within ERM is today far more positive. Having achieved better recessionary financial results than its senior management team initially feared and with a new strategy drawn up during recession but firmly designed for a post-recessionary world, Alexander is feeling more confident: “Our sense is of building optimism and we are well positioned to respond to that in our clients. We are making investments in key opportunities around the world – twelve months ago we would have been more hesitant to do that.”



**ERM turnover by region, 2009\***

\*Financial year ending 31 Mar 2009

opposed to PR issues. Rather than spending on carbon initiatives – some of which are useful and some less so – they will be looking at the products they offer, their manufacturing processes and the markets they operate in, and asking questions about how these might be affected over the coming decade or two by increasing pressure on

**ERM: recent corporate developments**

2009	Alliance with IT firm Samsung (GHG emission data, SE Asia)	2009	ERM makes play for UK market rival Enviros but SKM seals deal	2010	Acquires IRC Risk & Safety (Houston, USA), c27 staff and annual t/o \$4m – risk management specialist to oil and gas sector
2009	c8% global headcount reduction (mainly impacting USA and Europe); US pension contributions deferral scheme and partners’ pay deferral scheme (based on financial targets) also introduced in response to global economic downturn	2009	FY results (12 months ending 31 Mar 09) indicate net sales growth of 9.4% in N American business, but 8.1% contraction in EMEA region net sales	2010	Completes new corporate strategy; rewards staff for pay cuts and deferrals
2009	Resignation of ERM chairman Peter Regan; temporarily replaced by Mike Hauck	2009	Partners US-based software firm Tririga to offer IT-based energy and GHG emissions solutions	2010	Appoints new chairman Philip Gore-Randall (ex-Anderson’s)
		2009	Bribery allegation – former MD of Chinese business named as making payments to local EPA official		