### CHAPTER 3

### What Would You Do? Case Assignment

#### WASTE MANAGEMENT Houston, Texas

Americans generate a quarter billion tons of trash a year, or 4.5 pounds of trash per person per day. Thanks to nearly 9,000 curbside recycling programs, a third of that is recycled. But, that still leaves 3 pounds of trash per person per day to be disposed. In the past, trash was incinerated, often in local neighborhoods. John Waffenschmidt, vice president for Covanta Energy Corp., remembers that when he delivered newspapers in the 1960s, “I'd go out in the morning and there would be little flakes coming down because there were 4,000 or 5,000 apartment-building incinerators.” The rest was incinerated in large power plants, like the one on the east side of the Hudson River that burns 1,900 tons of New York City garbage each day.

With 20 million customers; 273 municipal landfills; 91 recycling facilities; and yes, 17 waste-to-energy facilities—that’s what large power-generating incinerator plants are called today— Waste Management, Inc., is the largest waste-handling company in the world. It generates 75 percent of its profits from 273 landfills, which can hold 4.8 billion tons of trash. And because it only collects 110 million tons a year, it has plenty of landfill capacity for years to come.

You joined the company a decade ago, and, after 3.5 short years as deputy general counsel and then chief financial officer, became CEO. That quick promotion prompted you to joke, “I needed to go to a bookstore to see whether I could find a book called *CEO-ing for Dummies*.” Instead, Waste Management sent you to Harvard for an executive program for CEOs, where the most important lesson you learned was to listen, because, as you tell your executive team, “This company and this industry aren’t very good at that.”

And with all of the changes taking place in your industry, Waste Management won’t succeed unless it listens. However, corporations, cities, and households are greatly reducing the amount of waste they generate, and thus the amount of trash that they pay Waste Management to haul away to its landfills. Subaru of America, for instance, has a zero-landfill plant in West Lafayette, Indiana, that hasn’t sent any waste to a landfill since 2004. None! And Subaru isn’t exceptional in seeking to be a zero-landfill company. Walmart, the largest retailer in the world, has also embraced this goal, stating, “Our vision is to reach a day where there are no dumpsters behind our stores and clubs, and no landfills containing our throwaways.” Like those at Subaru and Walmart, corporate leaders worldwide are committed to reducing the waste produced by their companies. Because that represents a direct threat to Waste Management’s landfill business, what steps could it take to take advantage of the trend toward zero waste that might allow it to continue growing company revenues?

Another significant change for Waste Management is that not only are its customers reducing the waste they send to its landfills, they’re also wanting what is sent to landfills to be sorted for recycling and reuse. For instance, food waste, yard clippings, and wood—all organic materials—account for roughly one-third of the material sent to landfills. Likewise, there’s growing demand for waste companies to manage and recycle discarded TVs, computer monitors, and other electronic waste that leaks lead, mercury, and hazardous materials when improperly disposed. However, the high cost of collecting and sorting recyclable materials means that Waste Management loses money when it recycles them. What can the company do to meet increased customer expectations, on one hand, while still finding a way to earn a profit on high-cost recycled materials?

Finally, advocacy groups, such as the Sierra Club, regularly protest Waste Management’s landfill practices, deeming them irresponsible and harmful to the environment. Should Waste Management take on its critics and fight back, or should it focus on its business and let the results speak for themselves? Should it view environmental advocates as a threat or an opportunity for the company?

**If you were in charge of Waste Management, what would you do?**

**Sources**: “2010 Sustainability Report,” Waste Management, [www.wm.com/sustainability/pdfs/2010\_Sustainability\_Report.pdf](http://www.wm.com/sustainability/pdfs/2010_Sustainability_Report.pdf), [accessed 6 February 2011]; “Municipal Solid Waste Generation, Recycling, and Disposal in the United States: Facts and Figures for 2008,” U.S. Environmental Protection Agency, <http://www.epa.gov/epawaste/nonhaz/municipal/pubs/msw2008rpt.pdf>, [accessed 14 February 2011]; “Zero Waste,” Wal-Mart\*Corporate, <http://walmartstores.com/Sustainability/7762.aspx> [accessed 15 February 2011]; J. Ball, “Currents -- Power Shift: Climate Change: Garbage Gets Fresh Look as Source of Energy,” *Wall Street Journal*, 15 May 2009, A9; J. Fahey, “Waste Not,” *Forbes Asia*, July 2010, 46; M. Gunther, “Waste Management’s New Direction,” *Fortune* 6 December 2010, 103-108; A. Robinson & D. Schroeder, “Greener and Cheaper: The conventional wisdom is that a company's costs rise as its environmental impact falls; Think again.” *The Wall Street Journal*, 23 March 2009, R4.

### What Really Happened? Solution

In the case, you learned that Waste Management is the largest waste handling company in the world, with 20 million customers and 273 municipal landfills. But even as it dominates its industry, Waste Management faces serious changes in its environment. Both corporations and consumers are reducing the amount of waste they generate and increasing the amount of goods they recycle. These trends challenge Waste Management, since the high cost of collecting and sorting recyclable materials means that Waste Management loses money when it recycles them. What can the company do to meet increased customer expectations on one hand, while still finding a way to earn a profit on high cost recycled materials?

*Like at Subaru and Wal-Mart, corporate leaders worldwide are committed to reducing the waste produced by their companies. Since that represents a direct threat to Waste Management’s landfill business, what steps could it take to take advantage of the trend toward zero waste that might allow it to continue growing company revenues?*

External environments are the forces and events outside a company that have the potential to influence or affect it. Organizations are influenced by two kinds of external environments: the general environment, which consists of economic, technological, sociocultural, and political/legal events and trends, and the specific environment, which consists of customers, competitors, suppliers, industry regulators, and advocacy groups.

The sociocultural component of the general environment refers to the demographic characteristics, general behavior, attitudes, and beliefs of people in a particular society. Sociocultural changes and trends influence organizations in two important ways. First, changes in demographic characteristics, such as the number of people with particular skills or the growth/decline in particular population segments (marital status, age, gender, ethnicity), affect how companies staff their businesses. Second, sociocultural changes in behavior, attitudes, and beliefs also affect the demand for a business’s products and services. With Subaru and Wal-Mart striving to become “zero-waste” or “zero landfill” companies, it’s clear that corporate attitudes have mirrored society’s and swung dramatically toward “going green.” In so doing, that changes represents a direct threat to Waste Management’s landfill business. The question, of course, is what can it do to take advantage of the trend toward zero waste that might allow it to continue growing company revenues?

The first step, of course, is to recognize the trend and the impact it can or will have on your business. David Steiner, Waste Management’s CEO, certainly seems to understand that societal and corporate attitudes have changed. Says Steiner, “Picking up and disposing of people's waste is not going to be the way this company survives long term. Our opportunities all arise from the sustainability movement.” He goes on to say, however, that “This is not David Steiner on some quest to save the planet. I don't get paid to do that. I get paid to generate shareholder value.”

And, how much value is there in the sustainability side of waste handling? Steiner estimates that, not counting collection or handling fees, there is $8 billion to $10 billion of materials in the waste that it puts in its landfills each year. And, how can Waste Management make sure that billions of dollars of recyclable materials don’t end up as worthless landfill? By investing in materials recovery facilities that capture valuable materials or energy in cost efficient ways. In the end, says Steiner, “If we're a landfill company, we're not in a growth market.”

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Managers use a three-step process to make sense of external environments: environmental scanning, interpreting information, and acting on threats and opportunities. Managers scan their environments based on their organizational strategies, their need for up-to-date information, and their need to reduce uncertainty. When managers identify environmental events as threats, they take steps to protect the company from harm. When managers identify environmental events as opportunities, they formulate alternatives for taking advantage of them to improve company performance. Using cognitive maps can help managers visually summarize the relationships between environmental factors and the actions they might take to deal with them.

Traditionally, recycling has been a breakeven or low profit business. The challenge for Waste Management and CEO David Steiner is to focus on sustainability services *and* be highly profitable. The question, of course, is how. The answer, he believes, is technology. Says Steiner, “We don’t want to play just in the picking up and delivering. We want to own conversion, too. We want to own the technology.” Consequently, Waste Management has gone on an acquisition spree, purchasing companies with the technologies it believes can make it highly profitable in recycling.

For instance, it bought Garick, a Texas-based company that can turn a ton of food waste, which traditionally had no value, into $40 of $50 of compost and mulch. It also invested in Harvest Power, a Massachusetts-based firm that turns waste into high-quality compost which can then be burned to generate electricity at a payoff of $60 to $80 per ton. Waste Management also bought Glacier Recycle, based in Washington state, which recycles construction materials in to recycled wood products and biomass fuel. Finally, Waste Management has invested in Terrabon, another Texas-based firm that makes so-called “green gasoline” from waste paper and chicken manure.

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Advocacy groups are groups of concerned citizens who band together to try to influence the business practices of specific industries, businesses, and professions. The members of a group generally share the same point of view on a particular issue. For example, environmental advocacy groups might try to get manufacturers to reduce smokestack pollution emissions. Unlike the industry regulation component of the specific environment, advocacy groups cannot force organizations to change their practices. Nevertheless, they can use a number of techniques to try to influence companies, including public communications, media advocacy, web pages, blogs, and product boycotts.

The most common technique for responding to the criticisms of advocacy groups is to assertively and quickly counter their claims with factual evidence that demonstrates that your company is not acting unethically, as claimed by the advocacy groups. Often times, that just leads to further, more intense accusations. Waste Management, however, has taken the unique strategy of working directly with advocacy groups to address criticisms of how it does business. One of the largest criticisms of Waste Management is that its 273 landfills represent tens of thousands of acres of contaminated waste land.

To address that criticism, it began working with the Wildlife Habitat Council (WHC), a nonprofit organization, which works with “with corporations and other landowners to create tailored voluntary wildlife habitat enhancement and conservation education programs on corporate facilities and in the communities where they operate.” The WHC works with corporations to independently certify that their recovered lands are now suitable and sustainable for wildlife. And, to achieve the WHC’s certification with waste-filled landfills is no small task. But, in 2007, CEO Steiner announced that Waste Management’s goal was to achieve the WHC’s certification at 100 sites amounting to over 25,000 acres by 2020. Debbie Figueras-Cano, who runs the Wildlife Habitat Council program at Waste Management, said, “I honestly thought at that point in time that getting to 100 of them would be a challenge, just because it's not a simple thing to do to get WHC certified. There's a lot of work that goes into getting these certifications.” Furthermore, the WHC had only certified 19 sites in the previous 7 years. Furthermore, said Scott Kilkenny, chairman of the WHC, “No single company has ever received 30 certifications in one year, and no other company has more than 100 certified programs.”

Nonetheless, today, just three years after setting its goal, Waste Management has 100 WHC sites protecting more than 25,000 acres. And, of those 100 sites, 97 are former landfills. Waste Management’s Kirby Canyon site, for example, has 600 acres for wildlife use that includes grasslands where two threatened species, the bay checkerspot butterfly and the California red-legged frog, are now thriving.