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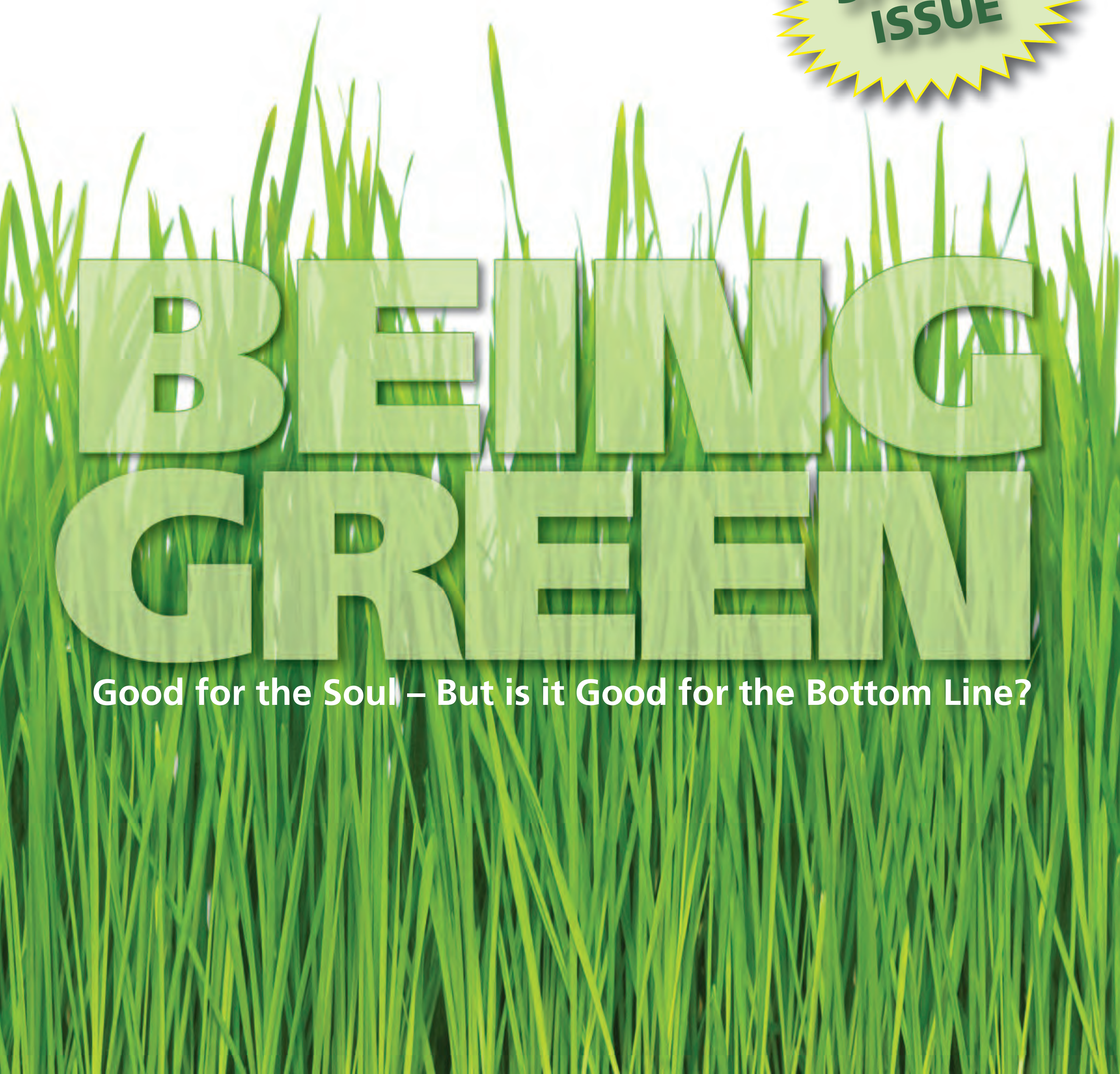


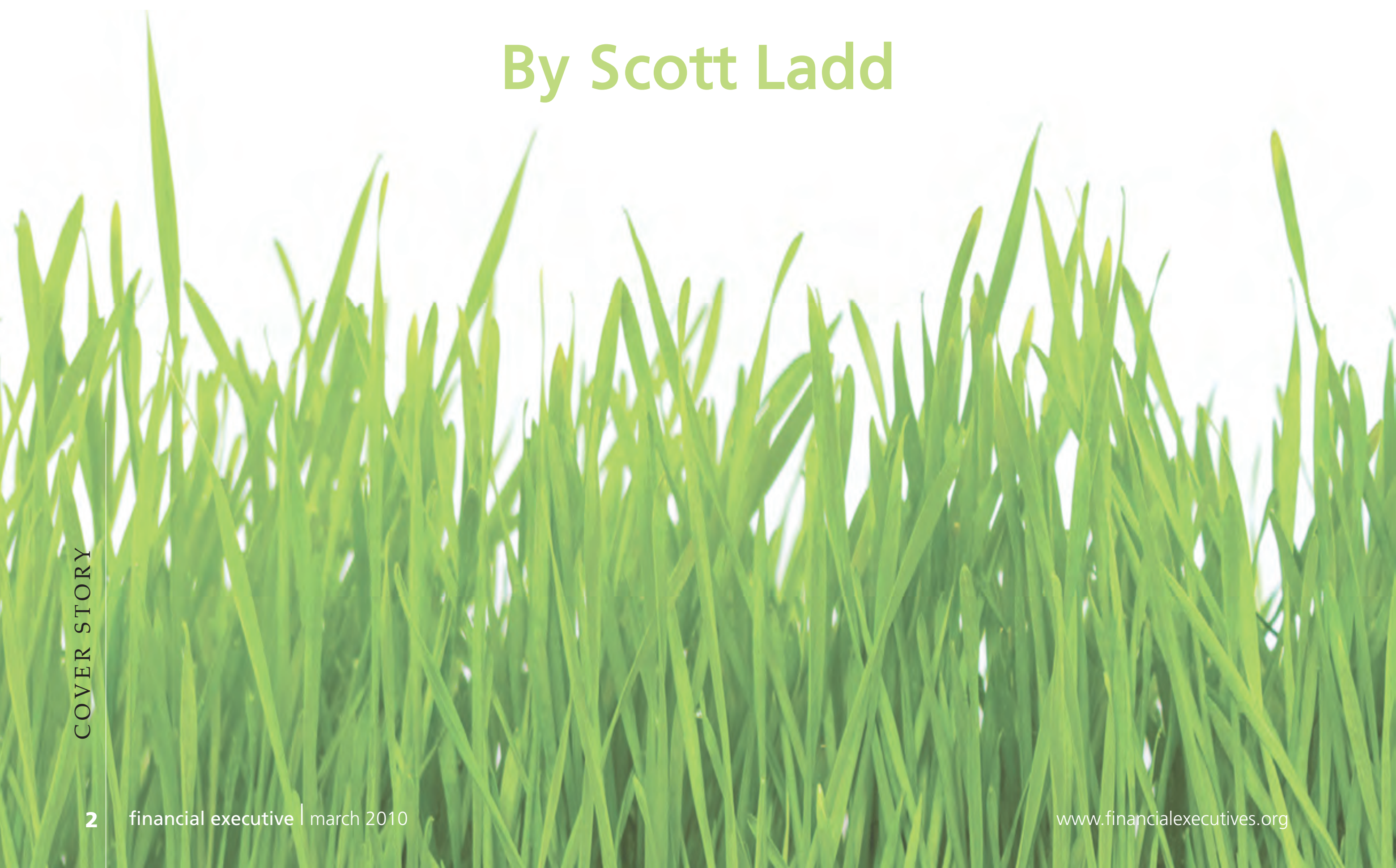
BEING GREEN

Good for the Soul – But is it Good for the Bottom Line?

CORPORATE

Good for the Soul, But is it Good for the Bottom Line?

By Scott Ladd



‘GREENING’

It’s not easy being “green” — on Sesame Street, Main Street or Wall Street. No one appreciates that more than corporate executives striving to balance environmental demands with a healthy revenue stream while also building investor interest. For many in corporate leadership, achieving that kind of equilibrium over the years has often been a vexing task.

Along the way, however, the business community is learning a valuable lesson. Greening offices, production plants, manufacturing processes and supply chains is beginning to translate into a greener bottom line. The business case for environmental responsibility, experts say, is no longer in dispute.

Greening has matured well beyond its early concentration on saving paper, cutting electric bills and reducing corporate travel. Not that these practices have stopped. In fact, documented savings from these practices serve as the impetus for moving forward.

Increasingly, financial executives are weaving environmentally sound and cost-cutting operating procedures into their overall business plans — not only for their own employees, products and facilities, but insisting that suppliers and trade partners meet the same eco-standards they are imposing at home.

They represent the companies most willing to dive into the deep end of the sustainability pool, confident they’ll come out in better shape. Certainly many executives, especially those in industries where going green is a much harder road, are finding the transition more difficult. But doing the so-call “right thing” and making it work financially is an idea whose time, most would agree, has arrived. And it is reshaping the business community.

Is ‘Greening’ a Revolution Or Evolution?

Sustainability initiatives have been a work in progress for a decade or so, marked initially by corporate resistance, lack of applicable data and concern from investors as to its long-term value. Some would characterize it as a revolution in the way businesses operate; others aren’t quite that convinced, preferring to describe it as an evolutionary process. But one thing is certain: The economic meltdown of the past two years has refocused the energies of investors and the companies they support.

For occupants of the C-suite, regardless of company size and scope, the issue inevitably comes down to two questions: Does greening work for their businesses? And, what impact does it have on enterprise profitability?

Most American businesses have embraced social and environmental responsibility as intrinsically valuable to their budgetary considerations — in many cases because the original concerns and trepidation about adapting such measures while continuing to work to maintain a strong revenue stream has eased.

The demands of a **changing** marketplace and the promise of tighter **regulation** make corporate greening an **imperative** and no longer simply an **intriguing concept**.

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COVER STORY

Michale Muyot, founder and president of CRD Analytics, says of companies in the Global Sustainability 50 Index: "A lot of these **companies came kicking and screaming** to it, but they had to. Since they've gotten through that process, they've found it a benefit. They've all found **ways to make money** from it."

"A lot of it is people perceiving barriers that aren't there," says Todd Larsen, director of corporate responsibility programs for Green America, an organization that provides economic strategies and tools to businesses that seek outside counsel in helping them go green. "It's not always a question of whether it is too costly to go green. The burden of proof of doing something new can be a challenge to any company."

Michael Muyot, the founder and president of CRD Analytics, which maintains the Global Sustainability 50 Index that highlights best environmental, social and governance practices, says the growth in eco-friendly businesses was inevitable. "A lot of these companies came kicking and screaming to it, but they had to," he says. "Since they've gotten through that process, they've found it a benefit. They've all found ways to make money from it."

Jeffrey Hollender, the chief executive of Seventh Generation — an environmentally friendly cleaning and personal-care products company with sales of more than $100 million annually — says a growing corporate reliance on meaningful environmental standards is good sense.

"You generally make more money when you do the right thing. Pollution is waste, waste represents inefficiency and inefficiency is simply not profitable. It's that simple," Hollender said in an interview on Kleercut.net, a Web site for environmental activists.

Muyot says he believes the recent "Great Recession" is compelling investors to ask more questions and be more careful about their investments. "The overall crisis had a massive impact," he says. "Investors started saying 'we want more transparency, how did we miss these risks?' It became clear we need to go beyond the balance sheet."

That attitude pervades much of the discussion about greening and financial investment, internally and externally. Despite pressures to curtail business costs and staffing, companies generally have kept to their environmental path. Hank Boerner, chief executive of the Governance and Accountability Institute in New York, was one who worried that the demands of an unforgiving economy might undercut such efforts.

"We thought there might be an abandonment of principles if the market turned down, but in fact the opposite occurred," he says. "If ESG (environmental, social and governance responsibility) is important to you, then you'll find a way to make it work."

Measuring Progress

Over the past two years, several aspects of the sustainability movement have advanced — the number of measurement tools that detail steps companies are taking to become more environmentally sensitive and the number of executives assigned expressly to direct corporate greening efforts, to name two. Investors have responded to such sustainability indexes, as they provide a much clearer examination of successful programs, where they shine and where they may fall short.

Among other measurement techniques, the Green Confidence Index is one that solicits information on companies doing more to build sustainability. A representative monthly snapshot of more than 2,500 Americans on their attitudes about on environmental responsibility, the index is a joint venture of three information-services companies.

Many executives have reacted to growing public pressure by establishing distinct business units to assess waste and act to reduce cost, not only to the environment but to shareholders and within the company itself. A growing number of companies have added a C-suite-level executive dedicated to sustainability and determining how it can generate income for the company and investors.

Ten years ago, the position of chief sustainability officer was rare. While more popular today, it's still not commonplace.

Choosing a CSO is not an uncomplicated process. The Hudson Gain Corp., a consulting firm that tracks executive trends, found last year that of 1,200 companies examined, only 200 or so had positions dedicated to sustainability. The issue for many executives is how to find senior leaders who bring specific knowledge, higher vision and hands-on experience to the development and management of greening programs. Often, they would select leaders who had excelled in other facets of the business.

"There's a danger in creating a chief sustainability officer, because it places all the responsibility of that issue on to one person," Michael Kobori of Levi Strauss & Co. told the *Los Angeles Times* in December. Kobori, the company's vice president for social and environmental sustainability, added that "we're successful when sustainability gets embedded in all the roles in the company."

With an economy struggling to recover and placing a premium on smart, cost-efficient strategies, experts say companies that can aggressively cut costs and limit their carbon footprints through greening are best positioned to succeed in the years ahead. Indices that reflect carbon-reduction efforts are on the rise.

Standard & Poors and the International Finance Corporation recently joined ranks to create a carbon efficiency index for global companies, measuring the performance of about 800 stocks in 21 markets.

The S&P/IFC Carbon Efficient Index, it is estimated, could encourage more than $1 billion of investment globally in companies that reduce their carbon footprints over the next three years, IFS predicted at the time of the launch. The association also believes it could serve to stimulate competition among companies in emerging markets. The global index came on the heels of a United States carbon index, which also grades companies on how efficiently they were decreasing their output of pollutants.

Cream of the Crop

The examples cited in most of these reports and listings of successful ESG initiatives include some of the nation's biggest companies. They understand that not paying attention to environmental concerns, altruistic motives aside, can dissuade a more enlightened and focused investor pool from investing in their companies.

Wal-Mart Stores Inc., for one, has aggressively initiated and promoted sustainability not only in its own stores and production facilities, but in the processes of its U.S. and global suppliers. In July, it debuted a Sustainability Index, designed to create more transparency in its supply chains and afford consumers enough product information to make enlightened choices.

The company is beginning to survey its tens of thousands of global suppliers on issues of energy and climate, the resources they use and how green their materials are. U.S. suppliers for Wal-Mart and its subsidiary Sam's Club were given a raft of questions over the summer that went to the heart of their production processes and how environmentally sound they were — had the supplies measured greenhouse gas emissions, the levels of emissions and if they were setting specific targets for emissions reductions, for instance.

Suppliers were also questioned about waste levels and water use, and what reduction goals they had set in those areas.

Wal-Mart officials say they intend to use the results to reward suppliers taking concrete steps toward reaching sustainability objectives. On its end, Wal-Mart has announced plans to reduce greenhouse gas emissions 20 percent at its current facilities by 2012, and cut back by five percent the amount of its packaging by 2013. As part of a company-wide sustainability plan, Wal-Mart says it is committed to ultimately being fully powered by renewable energy sources.

Larsen, of Green America, notes that companies such as Wal-Mart — depending as it does on suppliers and factories worldwide that don't necessarily subscribe to strict greening standards — may find it difficult to be seen as a thoroughly green entity. "Can they ever been seen as a green company?" he asks. "That's the challenge. Their stores here [in the U.S.] are arguably green, but the rest is unknowable."

In 2007, Procter & Gamble Co. — another company consistently cited in independent surveys for its progress — set five objectives to achieve broad sustainability within five years. One is to develop and market at least $50 billion in cumulative sales of product regarded as environmentally sound by the end of 2012; the company says it is more than 25 percent toward that goal.

Hank Boerner, chief executive, Governance and Accountability Institute, says of the economic slowdown: "We thought there might be an abandonment of principles if the market turned down, but in fact the opposite occurred. If ESG [environmental, social and governance] is important to you, then you'll find a way to make it work."

In addition, P&G says it is committed to a 20-percent reduction in energy consumption, waste disposal from its plants, water consumption and carbon emissions over the same period.

Newsweek magazine has joined with noted environmental researchers such as KLD Research & Analytics, Trucost, and CorporateRegister.com to rank the 500 largest U.S. companies based on environmental performance, policies and reputation.

In its 2009 Green Rankings, technology companies fared best, with Hewlett-Packard Inc. and Dell Inc. named as the two best U.S.-based firms for innovative sustainability programming. Intel Corp., which placed fourth overall in the rankings, was cited for an initiative that ties annual employee bonuses directly to the attainment of specific greening objectives.

Others are relying more heavily on alternative energy sources to keep costs down and facilities more environmentally friendly. Boerner notes that Google is creating one the largest solar installations in the U.S. to power its California headquarters.

Concern with water over-use, pollution and recycling is driving many of the newest greening initiatives. B. Braun Medical Inc., based in Bethlehem, Pa., makes more than 2,000 medical products and, like many manufacturers, faces obstacles in maximizing production efficiency and maintaining a strong environmental presence. It created an all-employee "Green Team" that crafted a company agenda with initiatives such as reusing waste water from its manufacturing plant — saving an estimated 4 million gallons of water annually — and aggressively recycling plastic waste.

Al Kabus, president, The Mohawk Group: "We marry environmental performance with economic value. We always ask, 'will this result in a more financially sustainable company?' We want to make everything we do economically justified."

Larsen notes that some companies are unusually involved in the environmental and social quality of the sources of their ingredients and products. For instance, Aveda, the hair and skin care products company, wants to know who is producing the raw ingredients, the labor conditions in place at the supplier facilities and whether the workers are treated well. The company is also careful about its advertising — its executives want the magazines in which they advertise to use recycled paper, Larson says.

Facing New Challenges

Corporations involved in heavy manufacturing industries can find it comparatively difficult to meet the demands of investors and regulators, as well as their own greening standards. But many believe they are making positive strides. The Mohawk Group, a global commercial carpet maker, is one of those large manufacturers that has implemented major changes in its production process, while continuing to investigate updating its procedures to reduce waste.

Mohawk's president, Al Kabus, says the business rationale for imposing sweeping changes is persuasive. "We marry environmental performance with economic value," Kabus says of the Calhoun, Ga.-based company. "We always ask: 'Will this result in [a] more financially sustainable company?' We want to make everything we do economically justified."

In terms of being green enough, Kabus doesn't believe his industry is there yet. "More needs to be done in the area of grey water processing, heat generation, filtering dangerous air particulates and adding more earth-friendly materials to the final product," he says. And, like many manufacturers, Mohawk has been hobbled by the poor economy.

"That's made all of us have to do more with less. In a lot of ways, our spending hasn't slowed down on process improvement," he says. "We're basically taking processes and making them more efficient."

Greenworks, the company's 40,000-square-foot recycling facility located in Chatsworth, Ga., is the latest step toward Mohawk realizing that goal of mass recycling. The facility recovers about 90 percent of all material used in carpeting products. Some of it is rechanneled into new carpeting, Kabus says. Some may wind up as liner in new automobiles or as circuit housing in computers.

While American companies, by and large, have done a competent job collectively in growing their greening operations, they still tend to lag behind global competitors, particularly in Western Europe, in effectively marketing them as business imperatives. "American companies generally have not done as good a job in communicating their approach to the carbon footprint," Boerner says.

A more complicated picture emerges of foreign businesses dedicated to improving their carbon footprint, but facing difficult obstacles in doing so. China and other large, rapidly developing markets, are doing a great deal from a sustainability standpoint, but are frequently saddled with technology that is old, inefficient, outdated and not environmentally friendly.

U.S. corporations, especially in the consumer goods industries, face challenges in selecting global business partners to make or process products they in turn sell to American consumers who expect the quality of the product to be high, and that meet their personal environmental standards. Apparel companies, for instance, contract much of their work without completely understanding the quality of the work they contract. They risk not only the purchase of inferior goods, perhaps prepared in facilities that fail to meet minimum greening standards, but also a backlash from consumers.

That's why oversight by Wal-Mart and other major U.S. corporations through sustainability indices that exert pressure on foreign suppliers might one day prove the best means of policing suppliers. If American businesses show little patience for inferior supplies and goods, and threaten a cut-off, that will either force the supplier to improve quality or risk losing a big chunk of their income.

But not enough companies have adopted tough standards with their suppliers, a situation that sustainability advocates say has to improve.

Investment Impact, Emerging Trends

The full range of sustainability proposals enacted by U.S. businesses has become an important factor in how people invest their money. Greening has had a beneficial effect on business growth and investment, industry observers agree. Boerner believes the market is becoming much more selective about where it parks its investment capital — in part driven by a public wariness over company policies that invite excessive risk and don't reflect enough cost-cutting ingenuity.

Corporate emphasis on ESG factors, when it comes to appealing to stakeholders, "is exploding in popularity," he says. For years, European investors have widely placed their faith in companies that champion reduced carbon output, for instance. That dovetails with the global rise in greening measurement tools. "When you deal with investors, you are more data driven," he says. "American companies are still not there."

Larsen describes the American investing public as "becoming more discerning." They even break down into shades of green, he notes: "True greeners are the most demanding, lighter greens want meaningful change but are not as demanding."

Consumers, he says, tend to be suspicious of claims that a company is doing all it can to be responsive environmentally without the information to back it up. But those that document their efforts tend to invite increasing investment. And studies indicate the greener the company, the better its performance tends to be over time.

"It's really a brand new world when it comes to investing," says CRD's Muyot. "I think there's a revolution going on in investing. People are taking more control of their own finances, of their own companies, of their advisers and wealth managers — how are you going to protect my money going forward?"

To experts in greening and sustainability, the next decade is likely to present much more in the way of innovation, strategic advancement and greater adherence to environmental and social planning as an integral piece of a company's business philosophy and planning.

Some companies, such as General Electric Co. through its "Ecomagination" division, have found the means to turn sustainability into a profit-generating business. That undertaking and others, such as IBM Corp.'s "Big Green Innovations," were created not only to bring about environmental improvements, but to supplement existing business objectives and become distinct lines of business.

There is also movement on the regulatory front that recognizes changes in the business environmental landscape. The U.S. Securities and Exchange Commission in January voted to publish interpretive guidance on climate change disclosures, which could provide impetus to both corporate and investment interests by encouraging companies to consider climate change disclosure as a material issue covered by SEC rules.

With the SEC's actions and the potential for greater federal regulation in the area of greenhouse gas emissions being championed by the current administration, corporate executives must anticipate more intensive scrutiny of their greening initiatives, programs and results. Industry experts say they should be opportunistic in pursuing greening incentives as they materialize. Today, more companies are producing sustainability reports for shareholder consumption, and more are having them audited as part of that reporting process to verify accuracy. But more still needs to be done, experts say.

"It's still a long way from being fully integrated into business operations," says Eric Olson, an author specializing in corporate greening practices and a senior manager with Ernst & Young LLP.

Olson believes that greening will finally reach its potential when it becomes fully embedded in company business plans — when its carbon footprint is just another measure of corporate performance, along with growth and profitability. Over time, he says, branding of environmental process should become more commonplace. Eventually, consumers should have the opportunity to make choices based in environmental labeling, akin to the nutritional labels used today.

But, he cautions: "There's a lot of ground to cover between now and then."

SCOTT LADD *is a New Jersey-based communications consultant who writes about the financial services industry and issues affecting corporate governance and sustainability.*