The Performance Advantage of Sustainability

The 2007 Boston Consulting Group/*Sloan Management Review* report surveyed executives concerning the expected benefits from sustainability efforts.[13] Leading the list, by a huge margin, was improved company/brand image, with cost savings, competitive advantage, employee satisfaction, and innovation as other perceived benefits.

One of the most frequently mentioned performance advantages of going green is the impetus it provides for innovation. Interface founder Ray Anderson said his company's commitment to sustainablility offered "an incredible fountainhead of inspiration."[14] An excellent example of such innovation can be seen at Bloomberg, a company that provides investors with financial data. Bloomberg leveraged its internal ecological commitment, BGreen, into a new product: providing environmental, social, and governance (ESG) performance investment analysis tools to socially responsible investors.[15] Exhibit 8-2 summarizes the performance advantages of going green.

Advantage Gained:	By:
Lowered cost of operating	Elimination of waste
Reduced exposure to risk	Inoculating against future law suits
Increased innovation	Impetus for new products/services
Improved recruitment	Enhanced image of green company makes it more attractive to potential employees
Enhanced employee motivation	Creates sense of excitement and purpose for employees
Market differentiation	Appealing to sustainability-conscious consumers

EXHIBIT 8-2
Performance Advantages of Going Green.

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In addition to cost savings and image building, going green offers "an incredible fountainhead for innovation."

Although sustainability can and does result in improved performance, the relationship between investment in green innovation and payoffs is not a simple straight line up. As Dean Schroeder and Alan Robinson have demonstrated with their "Green Payback Curve," the bottom-line impact of green investment goes through predictable stages:[16]

- Phase 1: Early efforts target "low-hanging fruit" and result in "quick and certain" financial payback.
- Phase 2: At this point, projects target areas of investment in which financial returns are in the future.
- Phase 3: Investments made in Phase 2 now sharply improve financial performance.

Interface's Ray Anderson was confident in the business case for sustainability:

> Costs are down, so it's saving money. Products are better, which means the top line is better. People are motivated and galvanized, which means employees' morale and engagement is up. And the goodwill of the marketplace is astonishing. I don't know what else provides this kind of business case: costs are down, products are better, people are motivated, and customers are receptive—and we're winning market share.[17]

"Any notion that companies need to make a tradeoff between financial and environmental performance was simply a false choice," insisted Anderson. There is no trade-off.

THE PROCESS OF CHANGING TO GREEN

In Chapter 1, we saw how organizational change is typically initiated in response to a trigger event; a shift in the environment that creates a need for altered strategies and new patterns of employee behavior. For Nike, it was the adverse publicity associated with Nike's labor practices that prompted CEO Phil Knight to put the company on a different path. Such trigger events can be dramatic in nature—Brazilian oil giant Petrobras suffered through three major disasters within a year of each other, including an oil rig explosion that killed 11 employees, before seeking to enhance its safety and maintenance performance—or subtle. Let's take the case of Ray Anderson, CEO of Interface.

Ray Anderson started Interface Flooring Systems, headquartered in Georgia, in 1973.[18] Interface's main product was carpet tiles, a high-end offering aimed at commercial customers that generated over $1 billion in global sales by the late 1990s. Carpeting was mainly made of nylon, a highly durable but also nonrecyclable product that ended up in landfills and takes 20,000 years to degrade. Interface followed standard industry practice, recycling no more than 4 percent of its production. The company grew to become the world's leading commercial provider.

The turning point for Anderson and Interface came at the confluence of two seemingly minor events. In the mid-1990s, Interface's research department invited Anderson to deliver a talk to a global meeting of employees focused on the company's environmental efforts. That invitation was prompted by queries from customers—what was Interface doing for the environment?—that grew out of the cultural–political climate of the decade. Anderson was reluctant to attend such a meeting. After all, his only vision for an environmentally responsible company was quite simple: "obey the law, comply, comply, comply." Certainly, the notion that his company or any other could be harming the environment while complying with environmental regulations never crossed his mind.

At the same time, and purely by coincidence, Anderson was reading Paul Hawken's *Ecology of Commerce*. "It changed my life," said Anderson. "It hit me right between the eyes. It was an epiphany." Anderson was inspired to begin a transformation, which he referred to in his typically understated manner, as a midcourse correction. "I'm dedicating the rest of my life to creating a company that can grow and prosper without doing harm to the earth."

Of course, not all potential trigger events actually trigger any significant change. Nike's Phil Knight could have attempted to paper over charges of labor abuse with public relations efforts, and Ray Anderson could have continued with his compliance-based vision of environmental responsibility. Much depends on company leadership. Jack Welch, for instance, fought community and government attempts to have General Electric (GE) contribute to the cleanup of the Hudson River. His successor, Jeffrey Immelt, on the other hand, launched "Ecoimagination" designed to commit GE to developing "tomorrow's solutions such as solar energy, hybrid locomotives, fuel cells, lower emission aircraft engines, lighter and stronger durable materials, efficient lighting, and water purification technology."

Once the trigger event motivates a reevaluation of values, goals, and strategies, companies seeking to go green undergo a transformation that follows a set of sequential interventions:

- Set the vision
- Diagnose the status quo
- Alter first informal and then formal design elements.

Ultimately, the leadership of the organization will need to bear the responsibility for setting a green culture in which sustainability becomes interwoven into the fabric of the organization.

Set the Vision

For existing organizations, going green represents a new direction: not just a new strategy but a new way of thinking about strategy. Not surprisingly, then, it seems quite helpful for organizational leaders to set the path and define the territory. In that regard, going green starts when top leadership offers a vision about what is meant by going green:

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Going green starts with a visionary statement from top leadership.

- When Jan Stenberg, then CEO of Scandinavian Airlines (SAS), committed his company to be an early mover in addressing environmental concerns related to airplane emissions, he explained: "A sound environmental profile is profitable. But it is more than that. It is our contribution to a sustainable society and to future generations.[19]
- In 2002, Jeff Immelt, CEO of GE, launched the company's ecoimagination campaign in order to achieve his goal of building a "great and good" company.[20]
- Interface's Ray Anderson made clear that his commitment to sustainability was not just about pollution. His vision of sustainability involved "taking nothing from the earth that is not rapidly and naturally renewable, and doing no harm to the biosphere."
- The leadership team at Subaru's automobile plant in Lafayette, Indiana set as their goal "zero-landfill" in the production of 1,000 cars per day.[21]

The vision sets a consistent strategy that helps avoid the complaint of one executive that, when it came to sustainability, his company had "too many unaligned programs and messages."

The power of the vision to motivate, unify, and excite, comes not just from its boldness but also from its alignment with the strategy of the company itself. Compare Coca Cola pledging donations to the Boys and Girls Clubs of America to Nike's effort to recycle athletic shoes and donating them to schools and communities to be used as the material for tracks.[22] Michael Porter and Mark Kramer differentiate between "generic" social issues and issues that are more directly related to the activities of a company or the social environment in which the company operates. Take the issue of HIV/AIDs. That may be a generic issue to a large American retailer but a strategic issue to pharmaceutical company thinking about investing in the development of a treatment or a South African-based mining company whose employees are directly affected.[23]

Green visions have three characteristics in common:

1. They articulate some specific territory in which the organization can contribute to sustainable development.
2. They state a belief that going green and performing well is mutually reinforcing rather than mutually exclusive.
3. They vow a commitment to a long-term social responsibility that transcends the performance of the company.

Typically, Porter and Kramer conclude, "the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources—and benefit society."[24]

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To be effective, green visions embed and connect the firm's commitment to sustainability with its business mission; that way, going green is seen as strategic, not peripheral.

Diagnose the Current Situation

In 2005, Wal-Mart's image as a "good neighbor" was slowly but significantly eroding in the public mind.[25] Sure, the company delivered on its promise of everyday low prices, thereby saving consumers money. But a question was raised: at what costs? A popular documentary movie, *The High Cost of Low Price,* suggested the social costs of Wal-Mart's labor practices—low wages, dependence on part-time workers and even illegal immigrants, lack of health care—passed on the true labor costs to society.[26] Wal-Mart's image was damaged, and customers were noticing and responding.

Although Wal-Mart had reacted defensively to such attacks in the past, CEO Lee Scott now considered a new approach. He would address in a positive way Wal-Mart's impact on the environment with particular attention to "energy, waste, and products." A team of executives and high potential employees were brought together to recommend targets and steps. That team did not work on its own, however. In addition to hiring consultants, the team worked with Conservation International and Environmental Defense, and relied on data supplied by the Union of Concerned Scientists.

Kicking off sustainability efforts with diagnosis helps focus employees on what needs to change. Because sustainability involves a larger commitment to the community in which the organization exists, diagnostic efforts will need to focus not just on the company but also on the other businesses in the supply chain. The employee team at Wal-Mart learned how little impact the company could have without addressing its supply chain. Said one member: "If we had focused on just our own operations, we would have limited ourselves to 10 percent of our effect on the environment and, quite frankly, eliminated 90 percent of the opportunity that's out there."[27]