The Business Case for Going Green

Companies find that doing good for the environment is also good for the bottom line.

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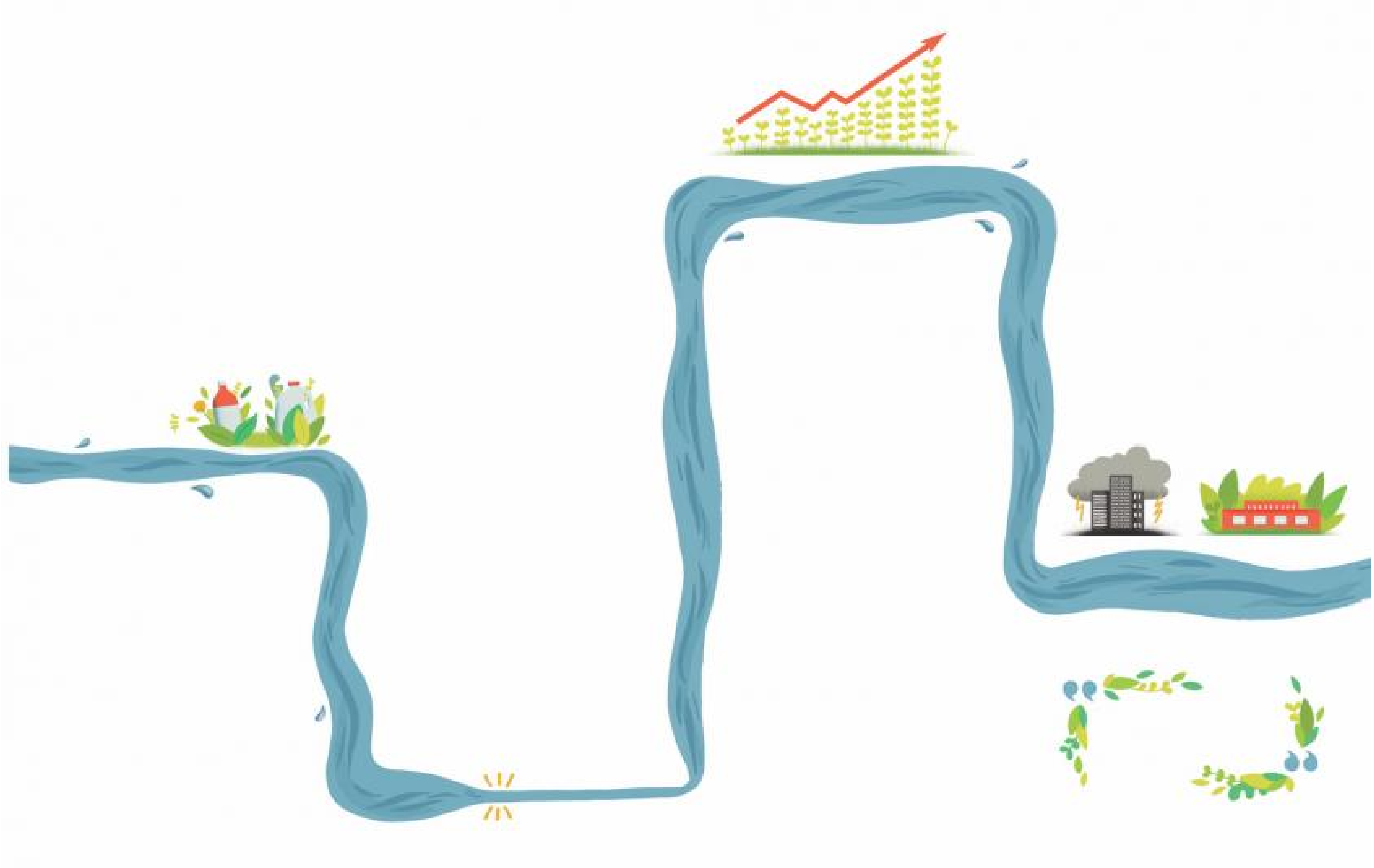

Illustrations by Shannon May

Last summer — the planet's hottest season on record, according to federal data that goes back to the 1880s — a bipartisan alliance of financial leaders led by former US Treasury Secretary Henry Paulson, former New York Mayor Michael Bloomberg, and hedge fund manager Tom Steyer issued a report warning of the economic risks of climate change.

The combined effects of erosion, floods, hurricanes, and drought might cost the economy hundreds of billions of dollars in the coming decades, according to the report by the Risky Business Project. Yet despite these projections, businesses — and their investors — aren't fully informed about the risks they face. It is time, the authors argued, for businesses to draw attention to these risks and take a leading role in limiting their impact on the environment.

Some companies, however, are already taking action. And for these businesses, the motivation isn't just good PR or even a simple desire to be better global citizens. Going green makes good sense, they've found — to their customers and investors, and even their bottom lines.

Recycle That

In California, which is currently in the throes of a historic statewide drought, the business risks of climate change are clear. So are the benefits of going green, particularly in industries such as real estate. "In commercial real estate, environmental and financial concerns are pretty well aligned," says Sara Neff '10, who leads energy, water, and new construction programs at Kilroy Realty Corporation, which operates more than 12 million square feet of high-end commercial properties on the West Coast. As Kilroy's first vice president of sustainability, a position she has held for four years, she champions the benefits of recycling, among other environmental efforts. "It is to our advantage to make our expenses as low as possible, because that is not only attractive to new tenants, but also means our profits are higher."

In many of the jurisdictions in Washington State and California in which Kilroy manages buildings, Neff explains, businesses must pay for trash collection, but recycling is free. "If you can get more of your waste into the recyclables, then you're paying a lot less," she says. "These savings were the impetus for our sustainability effort." The financial benefits are what win over tenants and investors. "We're running out of landfill space, but we don't really think about that," says Neff. "We do more recycling because it's cheaper."

Ron Gonen '04, who co-founded RecycleBank in 2004 and served as New York City's first recycling czar, has promoted the financial benefits of recycling throughout his career. He is now the co-founder and CEO of the Closed Loop Fund, a social impact fund that provides zero-interest and low-cost loans to private companies that want to invest in a recycling infrastructure. The fund's investors, including Walmart, Unilever, and Procter & Gamble, share a key interest: keeping costs down. "Manufacturing is cheaper when you have sufficient access to recycled materials," says Gonen. About 70 percent of plastic water bottles are discarded as trash, he points out, along with about one-third of aluminum cans. "Companies recognize that they can decrease their cost of manufacturing if they can get access to this material. But instead it ends up in landfills."

The draw of cheaper raw materials has convinced these competitors to work together—as they must, given the scope of the goal. "There isn't one company out there that can say, 'My company has the capability to the fix the problem for the entire industry and region,'" Gonen says. "They're not equipped to do that. But they're willing to collaborate because it will help the environment and, also, their bottom lines."

Cutting Back

For many companies, launching or expanding a recycling program is a logical first step. A complementary strategy, and one that is increasingly seen as part of a must-have suite of sustainability initiatives, is cutting back on energy use. As with recycling, a primary motivator is cost reduction. "Think about all the companies that are running huge server farms and have network infrastructures," says Sarah Gillman '93, CFO of the Natural Resources Defense Council, a 1.4-million-member environmental action group that works with political, business, and community leaders. "Energy is a key component of their cost."

Gillman points to the wide spectrum of entities — from sports teams to universities to cities — that now have sustainability initiatives, which she sees as a direct response to the business risks of climate change. "Even when there's a worldcitizen point of view, there's a self- interested or bottom-line point of view, too," she says. "Because when it comes to costs, organizations get involved."

Cutting back isn't just a matter of lowering the electricity bill. Increasingly, companies are seeing the importance of reducing their water use. "Water is obviously quite affected by climate," says John Wilson '97, head of corporate governance, engagement, and research at Cornerstone Capital, a financial services firm that specializes in sustainable investing. "And it's an important resource for business, so if you're not aware of climate change and how your use of water is going to be affected by it, then you're not doing adequate due diligence."

Sara Neff of Kilroy concurs. The company has seen its utility costs surge in recent years, and she sees depleting water reserves as one of the greatest threats to business. "We are really in a state of emergency," she says. "Even though water is still cheap, at some point, it's going to run out. That kind of risk mitigation has led us to do a lot of water conservation."

Impressing Investors

Taking such steps has an additional business benefit beyond cost reduction and risk mitigation, and that is impressing investors. "There's a lot more interest in sustainability in the investment world than there used to be," says Wilson. "Climate change will be a big cost to the economy, and investors have an incentive to try to address those issues, purely from a fiduciary standpoint."

Asset owners such as pension funds and sovereign wealth funds are asking investment managers to demonstrate how they take sustainability into account in their practices, Wilson says. “Institutional investors recognize that climate change will impede their ability to provide for their beneficiaries over the long term,” he says. “And investment managers are trying to figure out how to address these questions.”

Companies that promote sustainability are more attractive to customers, says Chelle Izzi ’04, who leads the energy storage team for the distributed energy business at Constellation, a competitive energy and services supplier. Good behavior toward the environment is seen as going hand-in-hand with good financial practice. “There’s a correlation, in that companies that pay attention to details — whether it’s what their customers care about or how tightly they run their businesses — tend also to have good sustainability practices,” Izzi says. “Many of the big-box retailers that have serious goals around sustainability say it’s because it’s good business. They’re running more efficiently by doing it, and more and more companies are finding it easier to do.”

Just as investors are drawn to companies that promote sustainability, many are shying away from companies with bad practices; often this takes the form of divesting from fossil fuels. “There are more than 700 institutions and individuals that are divesting from oil, coal, or natural gas,” says Gillman, citing data prepared by philanthropy-focused Arabella Advisors for last year’s United Nations Climate Summit. “What’s going on now is like what happened in the anti-apartheid movement of the ’80s, in which the investment community divested from South Africa.”

Ron Gonen of the Closed Loop Fund is also seeing more interest in divesting from fossil fuels. “It’s slow, but I think this is actually going to be where we see the biggest impact,” he says. “Because investors are saying, ‘I can’t invest in this product or industry because it has a negative impact on climate change, and that either impacts my business directly, or my community, or my other investments.”

Attracting Talent

Investors aren't the only ones looking at companies' sustainability efforts: going green attracts talent. Working in a building that has been LEED certified, for example, is increasingly seen as a perk, much like dry cleaning delivery and high-end cafeterias. "Many of our tenants are big-tech tenants who are competing for the top brains coming out of the best schools," says Kilroy's Neff. "The amount they would spend on getting a building that meets the highest standards for sustainability is nothing compared to hiring that whiz kid who's going to develop their next product." John Wilson has witnessed the same trend at Cornerstone. "Increasingly, we're finding that younger employees are very interested in working for companies that share their values," he says. "So there's an impact on your attractiveness as an employer if you make the effort."

It is a change that has been a long time coming. "I've worked in the nonprofit sector or for corporations that served the nonprofit sector for my entire career," says Gillman. "Back in 1993, there were 12 of us in my class of 550 that went right into the nonprofit field. Now there are so many people who are driven by those issues." And perhaps that's because these issues are becoming mainstream, which many would argue is a good thing. As the risks from climate change play a more prominent role in our near future, and even in our present, so do the efforts to mitigate its effects. "Dealing with climate change is an ethical, moral, and business imperative," says Gillman. "The world is changing, and we have to plan for that."