

Green Really is the Color of Money

Green Business Summit Keynote Speech by:

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In 1953, Charlie Wilson, the President of **General Motors** (at the time, the largest company in America), was nominated to become the U.S. Secretary of Defense. During his confirmation hearings, he said “What’s good for the country is good for General Motors, and vice versa.” He’s been famously misquoted ever since as saying “What’s good for GM is good for America.” I share this anecdote with you this morning because Wilson was effectively saying that there was no conflict between GM’s profitability and the public interest – a theme I will return to shortly.

Fast forward to May of this year. In a speech at the George Washington University School of Business, Jeffrey Immelt, CEO of **General Electric**, said that he and his colleagues had looked at the world and seen the following:

- Diminishing domestic oil and natural gas reserves;
- Continued dependence on foreign sources of energy;
- Increasingly scarce resources in an ever more populated world; and
- Increasing evidence of global climate change.

In his words, the world had changed, and GE would change too. The nature of the change is captured in GE’s “ecomagination”; a campaign that is not about trends or morals, but the game of business in the early 21st century.

As Immelt put it, “we’re launching ecomagination because it will accelerate our growth and make us more competitive.” And so it is that GE is making strategic and substantial (up to \$1.5 billion annually) investments in wind power; desalination; and fuel-efficient jet engines and locomotives. GE has further vowed to improve its energy efficiency 30% by 2012 to enhance shareholder value.

GE is today’s General Motors, the largest company in America, and if measured by market capitalization, the largest company in the world. It makes many of the products that keep the global economy humming, and it believes there is money to be made in making those products more environmentally benign. Put another way, GE sees

tremendous opportunity in figuring out how to accommodate economic growth with less impact – how to generate profits while protecting the public interest. By 2020 China hopes to produce 10% of its energy from renewable sources, especially wind. GE intends to be well positioned to help China, and other markets, meet this kind of objective. More broadly, GE sees that a revolution is underway that will propel the world toward a distributed energy system based on photovoltaics, fuel cells, wind power, and microturbines. This revolution can be slowed by shortsightedness and a lack of leadership, but it cannot be stopped and forward-looking companies realize this and are taking action now.

Hard on the heels of GE's strategic shift comes word last week from **Wal-Mart**, America's largest retailer. The 800 pound gorilla announced that it is going to dramatically reduce energy consumption in its stores, double the fuel efficiency of its truck fleet, minimize the use of packaging, and perhaps most interestingly, pressure its supply chain partners to follow suit. Why? Because the message has now been heard. The world is undergoing a remarkable set of transitions: population growth is starting to level off; the developing world is becoming developed; and environmental problems that used to be localized are radiating everywhere. These changes constitute a not-so-quiet revolution that touches every aspect of life. Jared Diamond's recent book, ***Collapse***, documents past civilizations that could not recognize or bring themselves to change unsustainable behaviors. Largely because of science, our civilization has the chance to not simply avoid their fate, but to enter an era of unprecedented prosperity.

Two decades ago, Gordon Gekko, the flamboyant anti-hero of Oliver Stone's film, ***Wall Street***, might have said that greed is good, but the storyline has changed. Today we live in a world where 5 billion people want to mimic the behavior of 1 billion – at a time when scientists and our own nose for the truth tell us that we are close to, at, or beyond the carrying capacity of our fragile planet. Today, we know that there is a better way. Today, we know that green is good; that green works. There doesn't have to be an inevitable conflict between the public interest and profitability. This thing we call sustainability is not ideological; it is a pragmatic response to hard core business realities that are cast into sharp relief by strategic planning and risk assessment that looks beyond the horizon of the next quarter or the next year. Let me ask each one of you – what percentage of your profits are you reinvesting in an innovation agenda? Seventy years ago Joseph Schumpeter defined profit as “the premium put upon successful innovation in capitalist society and [it] is temporary by nature: it will vanish in the subsequent

process of competition and adaptation”. In an era characterized by hypercompetition, it seems clear to me that a portion of your profits needs to be reinvested in activities that deliberately push the envelope of your firm’s business model – or indeed the conventional wisdom of your business.

With this in mind, this morning I call on you to do three things.

Firstly, I want you to start taking the implications of your development and business practice choices over the long term into account now as a form of **prudent risk management**. By way of example, doing business or planning communities without paying attention to energy costs – in the broadest sense – is turning a blind eye to serious risks to shareholder and societal value. I want you to unpack your supply chain and value chain and see where you’re leaving money on the table and where your business model might be vulnerable in a carbon-constrained world. How do you do what you do? Where do you source raw materials? How carbon intensive are those materials? How do they get to your manufacturing plant or plants? How efficient is your equipment? How do you move product around? It is worth remembering that the **Carbon Disclosure Project** is a coalition of 155 institutional investors with more than \$21 trillion in assets – it is NOT an environmental group – and these hawk-eyed number crunchers know that how a company thinks and acts with respect to energy can create considerable risk as well as opportunity. A company’s approach to carbon management is increasingly becoming a distinct source of competitive advantage – not unlike the decisions that it makes on the selection of markets, management of its supply chain, or investment in technology.

Secondly, I want you to see that you can improve your bottom line by embedding eco-efficiency in your operating DNA. Eco-efficiency is a rock-solid business strategy that links financial and environmental performance by focusing on how more value can be created with less environmental impact. Quite apart from the obvious environmental or social benefits, eco-efficiency can create impressive benefits for a business.

Differentiation advantage is especially important in this regard – advantage based on a product’s characteristics and performance, as well as favorable social, emotional, and psychological reactions toward the firm that enhance its image and reputation.

Differentiation may also result in a firm being accorded a lower cost of capital because it is perceived to be less risky overall. And the real beauty of eco-efficiency for me is that it allows business to get “traction” in several different ways – from process optimization to waste recycling; from eco-innovation to the creation of new services. And while it’s great

to see global players like GE and Wal-Mart stepping into this brave new world, you don't have to look far afield, or have the deep pockets of a GE or Wal-Mart to get inspired. Vancouver's own **Westport Innovations** is a leading developer of environmental technologies that enable vehicles to operate on clean-burning alternative fuels, and the firm has already sold 2,000 compressed natural gas bus engines to China. **Mountain Equipment Co-op** has generated savings of \$63,000 a year at its Vancouver store through recycling, and the **University of B.C.** has saved over \$1 million by retrofitting lighting. **Toyota Canada** has reduced vehicle maintenance and operating costs by \$20,000 through eco-efficiency. **Telus** has saved \$385,000 a year through waste reduction and recycling efforts, and created a new multi-million dollar revenue stream through equipment re-sale. In Victoria, the **Dockside Greendevlopment** intends to have the lightest ecological footprint of any development in the world. Perhaps most impressively, **BC Hydro** will spend \$600 million over the next 10 years to **reduced** demand for electricity, and it will generate 50% of new power from clean energy sources. Best news of all? The companies I've named represent just the tip of a pretty big iceberg; there's something good happening here in B.C. and especially here in Vancouver. More and more businesses see that green is the color of money.

Finally, and most exciting of all, I want you to think about where your business (and business sector) is traveling through time and how you can get ahead of the curve. On the one hand, this is a call to think about how you can out-perform your competitors in the known marketplace. But it is more than that; it is a call to think about what Chan Kim and Renee Mauborgne elegantly call a "**blue ocean strategy**". Unlike "red oceans", which are well explored, crowded with competitors, and characterized by cutthroat competition, "blue oceans" represent "untapped market space" and the "opportunity for highly profitable growth". Here, competition is irrelevant (or at least different) because the rules of the game are waiting to be written. In some respects, this is what **Starbucks** has done with coffee – how do you get people to continually spend \$4.00 for a cup of coffee? Well, you'd better have damn good coffee, but you'd better also have something else, something different – a neighborhood oasis for example, where people can take a break, listen to some jazz, and ponder universal, personal or even whimsical questions – in short, a place where people can meet for conversation. This is how Starbucks has forged new rules for a previously moribund business.

So I challenge all of you today to think about the business you're in, or might yet be in, and how innovation could allow you to forge a blue ocean strategy. Take one vector of

everyday life – transportation. How do we move people and goods around? Now think about what might be possible – with existing tools and ideas applied in new ways, or with new tools. It took the world 125 years to use the first trillion barrels of oil; it will take us 30 years to use the second trillion barrels. And transportation will be a big reason, especially as hundreds of millions of people in China and India buy automobiles. But what might happen if we combined lightweight materials such as carbon fibre with innovations in propulsion and aerodynamics? Could we reduce oil consumption use without compromising comfort, safety, performance or affordability?

In some respects, I want to encourage you to get out of your comfort zone. Today in this room we have the seeds of something very exciting. Risk management and eco-efficiency are part of the conversation, to be sure, but they are not THE conversation. Create time today to think about nanoscale engineering and how the discoveries of chemistry, physics and biology can create opportunities for new inventions, new materials, and new tools – leapfrog technologies if you will – to help move us around – with a lighter footprint.

I launched my career in 1986, a year before the Brundtland Commission popularized the term sustainable development. I use the term “popularized” loosely; for several years I felt as though I was breaking trail in heavy snow whenever I tried to engage the business community in a strategic conversation about sustainability. Those days are gone. In addition to the recent market moves by GE and Wal-Mart, and the track record of our own home-grown talent, Jeffrey Swartz, CEO of **Timberland**, is using the resources, energy, and profits of a publicly traded footwear and apparel company to fight social ills, help the environment, and improve conditions for laborers around the world. Oh yeah, his company’s sales have been growing at a compound annual rate of 9.7% over the past 5 years. The company’s stock price is up 64% over the same period. As Swartz puts it, the idea of helping others is a vision around which he is creating a more productive, efficient, loyal and committed employee base, which drives real financial results. **This is the new business ethos.** And whether this ethos is manifested through organizations like the **World Business Council for Sustainable Development** or through the actions of energetic individual companies the bottom line is clear – more and more businesses are backstopping good words with tangible actions that slay the myth that one can't be green and competitive. Over the past decade, **DuPont** has boosted production nearly 30% but cut energy use 7% and reduced GHG emissions 72% - saving more than \$2 billion. Five other major firms – **IBM, British**

Telecom, Alcan, CatalystPaper, and Bayer – have collectively saved another \$2 billion by reducing their carbon emissions.

In closing, let me share with you a story that I think reflects exciting growth in a conversation that has for too long been rather insular. Laurie David, wife of ***Seinfeld*** creator Larry David, is fast becoming one of the most effective and influential advocates for action on global warming and climate change. She is leveraging her considerable network and her own skills in PR to ramp up the constituency for change in how we think about and talk about climate change. The centerpiece of her efforts is the ***Stop Global Warming Virtual March on Washington*** – an interactive web site and online petition designed to create sufficient buzz that President Bush and congressional and business leaders embrace stronger pollution control laws and new clean-energy technologies. Already some heavyweight players have joined the cause – **Walter Cronkite**; rising senatorial star, **Barack Obama**; **America Online**; and **MTV**. In December, characters on three daytime soaps – ***All My Children, The Bold and the Beautiful***, and the ***Young and the Restless*** – will start talking about the march in their on-air dialogue. While it is easy to dismiss this as another example of celebrity vanity, I prefer to say “bring it on”, give me some of the tools, techniques and passion of Hollywood – all in service of expanding a conversation about the defining issue of our time.

To say business and the environment mix is, on the one hand, to state the obvious – all material wealth we create is dependent on nature, or natural capital. And yet, too few people know this, or know this with sufficient understanding and passion to do something about it. More urgently, too few people appreciate that green business is good business. So we all have some work to do. We need good stories. Stories that demonstrate how green is the color of money. I’ve shared a few with you, but we need more. And we need to share those stories widely. We need to dramatically accelerate the sustainable business agenda. THIS is blue ocean territory. THIS is the conversation. There’s a seat at the table of this conversation for each one of you. I challenge you, and invite you, to take your place at this table.