This Common-Sense Change Makes Good Business Strategy

By Alyce Lomax | May 4, 2011

"Going green" is a popular strategic destination these days. However, it's one thing to rejoice that you've decided to start that journey, and another to actually *get there*.

While more business leaders and investors now embrace the general idea of environmentally friendly initiatives, the reality of their actions might still fall short of their ambitions. To keep businesses on the right track, savvy shareholders may need to give them a push.

What's your damage?

Last year, environmental research firm Trucost calculated that human activity caused $6.6 trillion in environmental damage in 2008. The top 3,000 global corporations alone caused $2.15 trillion of that projected harm. If this course continues, annual environmental costs could reach $28.6 trillion by 2050. But even as they try to veer off this expensive, unhealthy path, some companies may struggle to change the ways they think about doing business.

Environmental Leader recently reported on a study conducted by U.K.'s Warwick Business School and University of Bath School of Management. After examining 25 years' worth of academic and industry research, the authors concluded that most companies' efforts to create "sustainable supply chains" have focused more on managing risk and avoiding public relations crises than establishing any true environmental benefit.

The authors called out **Mattel** (Nasdaq: MAT) and **Apple** (Nasdaq: AAPL) as examples. Toxic lead paint cropped up in Mattel's children's toys a few years back, while Apple, despite pledges of eco-friendliness, still faces accusations of sweatshop policies, worker suicides at its contracted Chinese manufacturers' plants, and lax environmental standards.

Environmental Leader reported another fascinating finding in a different article: Some companies' management teams may have an overly generous perception of their own sustainability plans. The Sense and Sustainability survey conducted by Gibbs & Soell quizzed 302 Fortune 1000 executives; 88% of these executives said their companies are "going green," but only 29% believe most other companies are following suit.

Because many executives may think their companies number among the minority working to earn a green halo, they might be more inclined to settle for less progressive plans. Facing the reality that their competitors and peers are doing the same would be a better driver for real change. Competition is great for innovation, and I'd rather see companies jostling for excellence in sustainability than resting on their green-tinged laurels.

Better roadmaps

On the other hand, the Sense and Sustainability survey also included several positive signs for a more eco-friendly future. Of the executives polled, 75% said their company has employees who are solely dedicated to green initiatives, up from 69% in 2010.

When it comes to *why* these companies are showing so much interest in environmentally friendly initiatives, 42% of respondents reported they were responding to consumer demand, 34% cited a desire to reverse or reduce global climate change, and 31% pointed to directives from management or shareholders.

With a significant portion of this change stemming from consumer opinion and shareholder demands, we finally have proof that using one's voice (and dollars) to drive change actually works.

On that note, shareholders have begun to pushing for better roadmaps at several companies. **Procter & Gamble** (NYSE: PG) recently revealed the ambitious goal to eliminate consumer and manufacturing waste landing in landfills, but shareholder activist As You Sow is demanding a better sense of how that huge company will actually achieve such a feat.

As You Sow has filed shareholder proposals asking Procter & Gamble and **General Mills** (NYSE: GIS) to assume responsibility for post-consumer waste, and it's in talks with **Kraft** (NYSE: KFT) and other companies as well.

If this sounds futile, think again. As You Sow said it's expanding on successful efforts to push **Coca-Cola** (NYSE: KO) , Nestle Waters, and **PepsiCo** (NYSE: PEP) to commit to recycling the lion's share of their packaging.

Money to burn? No way

Some investors may dismiss sustainability as a frivolous part of business strategy, but the topic deserves a deeper look. As You Sow pointed out that our society burns and buries an annual 40 million tons of recyclable packaging, which carries an estimated market value of $15 billion to $23 billion. On a purely market-based level, throwing valuable, reusable resources away seems pretty stupid.

Smart economic motives can drive companies' efforts to reduce waste and improve efficiency. Clearly, many corporate citizens haven't done enough to identify and eliminate waste in their businesses and supply chains.

The desire to "go green" has taken root in Corporate America, even if many companies' managers still struggle with how -- or even *why* -- they're doing so. As shareholders and consumers, we can push companies toward better outcomes in reducing waste and damage, yielding a better bottom line for our investments and our society alike.

SOURCE: http://www.fool.com/investing/general/2011/05/04/this-common-sense-change-makes-good-business-strat.aspx