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The Greening of Capitalism

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Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage
By Daniel C. Esty and Andrew S. Winston
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After the Paris Peace Conference in 1919, the great British economist John Maynard Keynes returned to Cambridge for most of the next twenty years to write and teach. It was an extraordinarily fruitful period for him. It was there that he penned his most famous work, *The General Theory of Employment, Interest, and Money*, published in 1936. But prior to publishing his *General Theory*, Keynes produced several other smaller and lesser-known volumes that helped him develop his famous opus. Among these was an essay entitled "The End of Laissez-Faire," based on lectures he had delivered in Oxford and Berlin. Looking back on it today, that short work is striking for its prescience. Keynes notes that "one of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialize itself." He continues:

> A point arrives in the growth of a big institution…at which the owners of the capital, i.e. the shareholders, are almost entirely dissociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary. When this stage is reached, the general stability and reputation of the institution are more considered by the management than the maximum of profit for the shareholders. The shareholders must be satisfied by conventionally adequate dividends; but once this is secured, the direct interest of the management often consists in avoiding criticism from the public and from the customers of the concern.…They are, as time goes on, socializing themselves.

Keynes was allied with the anti-conservative Bloomsbury set and a critic of the then-emerging highly dynamic industrial capitalism that was based upon an unapologetic pursuit of profit. For Keynes the tendency of large firms towards socialization was in some significant ways a good thing—not unambiguously good, but beneficent in the long run.

From our vantage point today, it is unsurprising that large, multinational companies seek ways of "avoiding criticism from the public and from the customers." That is good business practice. The interesting wrinkle that Keynes noted, and the one that should concern us today, is that they would do this at a cost in profit and enterprise. And in this Keynes foreshadowed what has come to be known as the Corporate Social Responsibility (CSR) movement.

The premises of CSR are that corporate entities, particularly large and powerful ones, have responsibilities that extend beyond ensuring the most desirable returns for their owners, the shareholders. They have obligations to their communities, to the environment, to society (however it is defined), to abstract notions of justice and fairness, and to future generations. Corporate Social Responsibility means firms are obligated, in a sense, to socialize themselves—just as Keynes saw they were already beginning to do.

The embrace of CSR has been swift and firm in American business schools and boardrooms. It is given high priority in the planning and positioning of major business enterprises. Most major corporations have senior executives charged with developing CSR policies for their firms.

The advance of CSR initiatives has also spawned a cottage industry of management consultants who help firms modify their practices and products in a business climate where reputation matters as much as—and sometimes more than—maximizing profit.

Green to Gold, the new book from Yale University professors Daniel C. Esty and Andrew S. Winston, is a kind of CSR manual. The authors accept uncritically what Keynes perceived: that the managers of firms of a certain size will go to great lengths to avoid criticism. Their book is designed to help these firms in their efforts.

The present political and cultural climate of opinion places a premium on environmental sensitivity—or at least the appearance of it. Ecological causes are in fashion. "Green is the new black," as *Vanity Fair* magazine recently proclaimed. Or as Esty and Winston put it, there is a "green wave" growing and building momentum through our culture and politics. The consequences for commerce are enormous. The question for the authors is not whether but how, and how quickly, firms become "wave riders" and embrace environmentalism.

To the extent that business interests and the environment are seen to be in conflict with one another, the environment is winning in the court of public opinion. It is doing so in the court of political opinion as well.

For example, today's Republican Party is widely viewed as the more "pro-business" of the two dominant American political parties. And yet many of the party's stars are quick to demonstrate green sensibilities. California governor Arnold Schwarzenegger has pushed some of the most stringent (some would say fanciful) environmental regulations in the country. Republican Senator and leading presidential aspirant John McCain has lobbied for years for strong global warming regulations. Senator McCain models his political attitudes on those of Teddy Roosevelt, who pushed Progressive-era environmental and conservation reforms.

It is true that the party's present standard-bearer, President George W. Bush, is widely vilified by green interest groups. But contrary to this perception, President Bush pushed for adoption of alternative energy technologies, particularly wind energy, while serving as governor of Texas. And he is promoting the development of hydrogen technologies and alternative fuel sources, such as switchgrass, devoting considerable sums of federal largesse to those efforts.

None of this is surprising. As countries advance economically and become richer, they become greener and cleaner as well. So even while debates continue over how best to address challenges like global warming, there is nonetheless a thick green thread stitched into today's supposedly "anti-environment" Republican Party. And such attitudes are, of course, even more prominent and significant on the political left. Given this state of affairs, there is a sizeable niche for authors like Esty and Winston to peddle advice on how best to ride the wave.

Green to Gold is chockablock with interesting and illuminating examples of firms that adopted green strategies and used them to enhance their reputations and get an edge over competitors. Toyota's commercial success with its Prius hybrid automobile is one example of what the authors term "green to gold" thinking. Toyota anticipated public and political demand, embraced an environmental ethos, and developed products in keeping with that spirit. As Esty and Winston point out, Toyota's decision to "go green" has also done wonders for the company's bottom line, in the form of a popular and brisk-selling automobile.

Some critics have pointed out that the Prius is not as "green" as its image would suggest. For example, the nickel and other metals required for its battery power system are mined by methods that are far from friendly to the environment. But that point is largely irrelevant from the green-to-gold point of view. For Esty and Winston, the *perception* that the Prius is eco-friendly is what matters in the marketplace.

As the authors argue, "The logic of corporate environmental stewardship need not stem from a personal belief that caring for the natural world is the right thing to do. If critical stakeholders believe the environment matters, then it's the right thing to do for your business."

If you are a manager at a firm looking to burnish its environmental credentials, this is the book you should buy. If your firm has already committed itself to the trendy belief that it should position itself as a green company, then hire Esty and Winston to advise you. Their book is sensible and pragmatic. Like many management books, it employs a few too many clichés, but in the main, it provides useful information for people looking for advice on how to go green.

But the authors would have done a greater service had they also wrestled more thoughtfully with some of the tough cases that don't fit so tidily into their green-to-gold calculus. Consider a few illustrations.

In the late 1980s, the company Scott Paper, now owned by Kimberly-Clark, sought to operate a eucalyptus plantation and paper mill in Indonesia. A radical environmental group, the Rainforest Action Network, orchestrated a letter-writing effort and threatened a boycott to pressure the firm. The "Stop Scott" campaign paid off and the company backed down. It chose the ostensibly green path. The environment won.

Or did it?

Alissa Stern, coauthor of *The Process of Business/Environmental Collaborations* (Quorum Books, 2000), pointed out in the *Washington Post* in 2003 that after Scott abandoned its plan, PT Inhutani II, a state-owned forestry company, took over, looking only for quick production and quick profits with plans to develop three times as much acreage as Scott would have. PT Inhutani II isn't vulnerable to the same pressures as Scott. It does not sell directly to consumers, so boycotts aren't a bother. And the result has been far worse environmental degradation than Scott would have caused.

"The company has been doing such an efficient job of deforestation," Stern wrote,

> that even Indonesia's not-so-green Ministry of Forestry this year threatened to take back the concession and sell it off piecemeal to small companies. But the practices of small (typically fly-by-night) forestry concerns might be even less environmentally sound than those of PT Inhutani II. Environmental groups will have even less leverage over them, and the government even less control.

Clearly, there are instances when a Western multinational can choose the "green" path, as it did in Scott's case by yielding to environmental pressure groups, and yet the overall outcome will not in fact be environmentally beneficial. What's more, Indonesian businesses and citizens who would have benefited from a relationship with a large company such as Scott Paper—with the resultant technology transfers, knowledge exchanges, and environmental best practices—were denied that opportunity. Scott Paper may have burnished its environmental reputation by its surrender, and faced as it was with a boycott and a pressure campaign, one can sympathize with the company's decision. But Indonesians and their environment are almost certainly worse off.

Consider another green-to-gold move, this one involving environmental concerns over biotechnology. A small California company called Ventria Bioscience has developed a promising new gene-splicing technique. This "biopharming" technique takes synthesized human genes that produce the proteins lactoferrin and lysozyme and inserts them in rice. These proteins can fight diarrhea and dehydration and could be extremely beneficial to residents of the developing world where those ailments are major killers of children.

There is at the present time no sound scientific reason to worry about contamination from biopharmed products like those developed by Ventria. There is no serious known risk to human health or the food supply. Nevertheless, environmental pressure groups dislike these agricultural biotechnologies and try to block them by alarming the general public about their safety.

During their development efforts, Ventria hoped to plant the rice in Missouri. And that's when Anheuser-Busch, America's largest rice buyer, stepped in. Anticipating possible public concern over genetically modified rice that might turn up in its beverages, the company threatened to boycott all Missouri rice to block the biotech crop planting. In the end, Ventria was forced to agree not to plant its genetically modified rice any closer than 120 miles from other Missouri rice fields.

The green-to-gold framework outlined by Esty and Winston encourages firms to go green up and down their supply chains and to anticipate public alarm before it emerges. So from that perspective, Anheuser-Busch took a prudent step. And from a commercial standpoint, no one can argue with Anheuser-Busch's decision. Product recalls can be costly and damage reputations. Anheuser-Busch took steps to protect its investments. If I worked for the company, I would probably have advocated the same measure.

But to the extent that safe but unfashionable technologies like Ventria's are delayed due to green ideological concerns, the cost can be measured in life-saving innovations delayed or stymied. So from a wider societal and public health standpoint, it's not clear that the green-to-gold strategy is desirable. At the very least, the picture is more morally nuanced and complicated than the authors fully appreciate or acknowledge in their book. And to that end, the green-to-gold thesis leaves a series of thorny questions unaddressed.

Keynes was strikingly prophetic eighty years ago when he described the tendency of large enterprises to socialize themselves. And he was pleased with certain aspects of that. But should we be? What of the "waning of enterprise" that Keynes pointed out might come with it? Or the threat to innovation as evidenced in these and other examples? "We are all Keynesians now," Richard Nixon supposedly said. Alas, in this instance, he may have been correct.

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