

For Companies, Green is the New Black

by Tara Struyk

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[Capitalism](#) has long dictated the prime corporate mission: Make more money. For a [public company](#), this capitalistic approach is part of its mandate to act in the best interests of shareholders. It seems to work; major corporations have become corporate giants and have gone on to make vast fortunes for their owners.

But for companies that have traditionally pursued growth above all else, their size and success may also have another, less favorable effect: pollution and waste. Companies that were once considered unequivocally successful based on their performance are facing increasing criticism for how their pursuit of profit impacts the environment.

As it turns out, consumer scorn can be bad for profits, too, leaving shareholders to expect much more from the companies in which they invest. The result? An increasing number of companies are "going green". Find out what's motivating them to make the change.

Modest Investments Lead to Major Savings

For an increasing number of companies, reducing energy use is one environmental tenet that's a virtual no-brainer. After all, the lower the amount of resources a company uses, the more money it saves. According to 2006 estimates by the U.S. Department of Energy, industrial use accounts for about one-third of all the energy used in the United States – that's a lot of room for cost-cutting savings. (For related reading, see [Clean Or Green Technology Investing](#).)

For example, United Parcel Service (NYSE: [UPS](#)), one of the world's largest package delivery companies, began adding hybrid vehicles to its fleet in 2006 to test whether the introduction of these vehicles might reduce their fuel costs (about 5% of their [operating expenditures](#) in 2006).

In fact, UPS believes that a shift in consumer sentiment toward environmental preservation will be good for the company's bottom line; in the [2007 Carbon Disclosure Project Report](#) (in which companies voluntarily respond to a questionnaire and provide data regarding their emissions accounting, management and reduction), UPS reported that it had experienced upside exposure to the global [green tech](#) market. In the questionnaire, UPS stated that "managing fuel consumption and greenhouse gas emissions is a business opportunity – one that can improve the bottom line, reduce our impact and our customers' impact on the environment and increase the long-term viability of our company." Competitors such as FedEx (NYSE:[FDX](#)) are also using hybrid vehicles in an attempt to cut costs – and reduce their environmental impact.

Green Products Score Points with Consumers

Not only can a dose of environmentalism cut costs for companies, it can also raise revenues.

For example, in 2005 General Electric (NYSE:[GE](#)) launched Ecomagination, representing a commitment to produce technology that reduces energy consumption and waste. The move paid off as GE reported \$10 billion in revenues from the line in 2005 and projects \$20 billion in annual sales by 2010.

Similarly, when hybrid cars hit the market in 2000, a mere 9,350 vehicles were sold. Despite this, companies such as Toyota (NYSE:[TM](#)) and Honda (NYSE: [HMC](#)) continued to improve their hybrid technologies. As a result, as consumer concern about climate change grew, these companies stood ready to provide earth-friendly products and gobble up market share. In 2006, 200,000 new hybrids were sold in U.S. – half of them were made by Toyota.

So while "green" has traditionally been thought of as reduction, for some businesses it actually presents an attractive new area for new business lines and top-line growth.

Staying Ahead of the Curve is Good Business

According to an April 2007 article in *Newsweek*, Nicholas Stern, former head of the [World Bank](#), predicted that climate change could cut global [gross domestic product](#) by 20% by 2050 if global warming continued. While global warming – and its causes – are far from certain, some companies are choosing to adapt and prepare for this possibility to ensure their success will continue well into the future, regardless of what the climate may bring.

Companies, such as Nike Inc. (NYSE:[NKE](#)), which set targets to reduce waste and packaging and become "climate neutral", and Hewlett-Packard (NYSE:[HPQ](#)), which is working toward reducing waste and setting up recycling services for electronic waste, made the [Global 100 Most Sustainable Corporations in the World](#) list based on how well they managed environmental risks and opportunities compared to their competitors. The Global 100 compares companies to peers in their sectors and selects companies on a "best-in-class" basis. Global 100 analysts believe these sustainable corporations will create long-term value for shareholders through cost reduction, innovation and other competitive advantages that result from sustainable practices. This suggests that for many companies, getting ahead of the curve by being "green" is just another opportunity for companies to get an advantage over their competitors. (To read more, see [Competitive Advantage Counts](#).)

In addition, with pressure increasing for the government to make regulations to curb corporate pollution, many companies are moving toward adopting some environmental practices before such regulations are put in place. Companies like Alcoa (NYSE: [AA](#)) and Dupont (NYSE: [DD](#)), for example, have established systems to reduce carbon emission and other harmful chemicals, the most likely targets for government intervention.

Leading the way, these companies, while reducing their impact on the environment, are also mitigating the future risks of regulatory shocks in the future.

Going Green vs. Going to Court

Concern about environmental lawsuits is another factor that may force companies to clean up their acts. The days when "bad" behavior goes unnoticed are long gone, and the stakes in these cases, which involve everything from the destruction of animal habitats to impacts on human health, are very high.

This issue was dramatized in the popular movie, "Erin Brokovich", which was based on the 1996 lawsuit in which a small California town sued the Pacific Gas and Electric Company (AMEX: [PCG-A](#)) for \$333 million for exposing residents living near one of its plants to toxic, health damaging chemicals. A chemical plant in Alabama was struck by a similar suit (and fate) in 2004, when it was slapped with a \$700 million settlement for creating pollution that was linked to health problems, including cancer. And in 2007, Ohio-based American Electric Power (NYSE: [AEP](#)) was forced to pay \$4.6 billion to clean up the pollution it had caused, which contributed to acid rain that damaged Northeast mountain ranges and surrounding national landmarks.

These settlements, and the ensuing bad press, can spell disaster for even the largest companies. As a result, companies are beginning to pay more attention to their environmental impact and to reduce the potential that they'll be held responsible for any damage.

Green is a Flattering Color

Although adopting environmental practices helps companies save money, find new avenues of business and stay clear of trouble, these benefits all contribute to another important profit driver for companies: public relations.

Improved public relations and positive public perception of a company can have a major impact on its bottom line. A January 2006 article in the *Economist* called public relations an "increasingly vital marketing tool". Many large companies appear to agree. According to the Council of Public Relations Firms, the companies that tend to be chosen for the *Fortune* "Most Admired Companies" list spend significantly more on public relations, have large public relations staff and make greater use of outside public relations agencies. Also note that General Electric, Toyota, FedEx, UPS and Wal-Mart – all companies that have made notable efforts to go "green" – were all found in the top 20 of the 2007 "Most Admired" list.

Wal-Mart has proved to be a particularly good example of how companies are adopting environmental practices in an attempt to improve their images. The company – and the [big box](#) stores it tends to build – has often been targeted by environmentalists for destroying habitats, producing tons of waste and putting more sustainable local businesses out of commission.

In 2007, Wal-Mart took up the "green" initiative, and introduced plans for an environmental overhaul, including making its trucks more efficient, building new stores with strict energy conservation goals and pushing suppliers to reduce packaging.

In typical Wal-Mart fashion, the company is hoping to maintain its standing through unprecedented innovation – this time in environmental initiatives. If consumers are concerned about the environment, Wal-Mart wants consumer to know that it cares too. In April 2007, Wal-Mart also launched an aggressive ad campaign to inform consumers about the changes it was making. As a result, despite what most analysts described as a dismal year, Wal-Mart managed to hang on to a position on *Fortune's* "Most Admired" list, scoring high points for "innovation" and "social responsibility". (Not all green converts are so altruistic; to learn more, see [The Green Marketing Machine.](#))

Conclusion

As consumer attention begins to shift more toward environmental concerns, companies are increasingly "going green". But despite what their public relations suggest, companies probably don't take the initiative to make these changes to their companies out of good will. In fact, as many companies have discovered, there are solid economic incentives for reducing waste and moving toward more sustainable business measures. By "going green" companies have already succeeded in reducing costs and increasing sales. In the future – particularly if the dire predictions about the availability of energy resources bear out – these moves may also ensure that companies maintain market share, avoid legal repercussions for environmental damage and stay in business.

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