

# Introduction The Environmental Lens

## **SONY'S VERY EXPENSIVE CHRISTMAS**

In the weeks before Christmas 2001, the Sony Corporation faced a nightmare. The Dutch government was blocking Sony's entire European shipment of PlayStation game systems. More than 1.3 million boxes were sitting in a warehouse instead of flying off store shelves. Was this a trade war or an embargo against violent video games? Sony executives probably wished it were something that easy to fix.

So why was Sony at risk of missing the critical holiday rush? Because a small, but legally unacceptable, amount of the toxic element cadmium was found in the cables of the game controls. Sony rushed in replacements to swap out the tainted wires. It also tried to track down the source of the problem—an eighteen-month search that included inspecting over 6,000 factories and resulted in a new supplier management system. The total cost of this “little” environmental problem: over \$130 million.

Sony executives refer to their PlayStation disaster as the “Cadmium Crisis.” They’ve vowed never again to be caught unaware of environmental risks. In fact, they’re now much more familiar with their own operations as a result of hunting down the problem.

So what can we learn from all this? Did an environmental ogre get what it deserved? Hardly. Sony has been a business powerhouse for years, and despite a few hiccups, the company is also generally perceived as an environmental leader. Nothing, in fact, foreshadowed the PlayStation stumble, yet it happened. Why? From Sony’s difficult experience, we draw three lessons:

- Even the best companies can be surprised by environmental issues.
- The environment is not a fringe issue—it can cost businesses real money.
- Real benefits can come from seeing things in a new light.

## **BP AND “LOOKING FOR CARBON”**

While Sony’s game systems sat in a warehouse, another very large but very different company was counting the money it saved when it sharpened its environmental focus and started looking at its business in a different way.

BP’s chief executive, Lord John Browne, committed the company to reducing its emissions of the greenhouse gases that contribute to global warming, especially carbon dioxide. Browne told all of BP’s business units to find ways to produce less of these gases. And they did. After three years of what insiders call “looking for carbon,” BP discovered numerous ways to cut emissions, improve efficiency, and save money. A lot of money.

The initial process changes cost BP about \$20 million but saved the company an impressive \$650 million over those first few years. As of 2006, the savings topped \$1.5 billion. In a low-key British way, BP executives told us that they were floored by the outcome. Nobody had dared imagine such an absurdly high return on investment. As Browne has said, “We set out to do good . . . and we ended up doing well.”

Was BP radically inefficient before this program? Far from it. The company had just never looked at its operations with an eye toward

reducing greenhouse gas emissions. Once it did, innovation flourished, all to the benefit of the bottom line.

Looking at all the ways environmental issues affect a business can frame thinking and strategy in a new way. By examining their business through an environmental “lens,” managers can avoid expensive problems and create substantial value. Thus, we add a fourth lesson to the three we drew from Sony’s experience—and this is the fundamental one:

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**Smart companies seize competitive advantage through strategic management of environmental challenges.**

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BP and Sony learned what some companies already knew: The Business world and the natural world are inextricably linked. Our economy and society depend on natural resources. To oversimplify, every product known to man came from something mined or grown. The book you’re reading was once a tree; the ink these words are printed in began life as soybeans. The environment provides critical support to our economic system—not financial capital, but natural capital. And the evidence is growing that we’re systematically undermining our asset base and weakening some of our vital support systems.

In other words, an environmental lens is not just a nice strategy tool or a feel-good digression from the real work of a company. It’s an essential element of business strategy in the modern world. It provides a way for businesses to contend with the real problems of pollution and natural resource management. Mismanaging these issues can drain value out of a company quickly—and damage brand reputations built up over decades of careful cultivation. That’s why leading companies have learned to manage environmental risks and costs as closely as they do other risks and costs. In doing so, they reduce the risk to the whole enterprise.

But the upside is equally important. In the chapters that follow, we’ll explore how leading companies are layering environmental (of-

ten called “green”) factors into their corporate strategies—spurring innovation, creating value, and building competitive advantage. These leaders see their businesses in fresh ways. They create new products to meet environmental needs. As they look up and down the value chain, they keep environmental impacts firmly in mind. They know that working to protect the planet also protects their own companies—by safeguarding their assets, inspiring current employees, and attracting valuable new “knowledge workers” looking for more than a paycheck.

In *Green to Gold*, we take you inside leading companies, across industries, and around the world. We show you the real costs, hard choices, and trade-offs companies face when they make environmental thinking part of their core business strategy. Pundits who dismiss the natural world as an issue—or commentators on the other “side” who underestimate the difficulties businesses face in executing environmental strategies—do neither the business world nor the planet any favors.

By systematically analyzing the experiences of dozens of companies, we’ve been able to extract the key strategies, tactics, and tools that are needed to establish an environmentally based competitive advantage. In a marketplace where other points of competitive differentiation, such as capital or labor costs, are flattening, the environmental advantage looms larger as a decisive element of business strategy. Indeed, no company can afford to ignore green issues. Those who manage them with skill will build stronger, more profitable, longer-lasting businesses—and a healthier, more livable planet.

## Part One **Preparing for a New World**

In the first few chapters, we lay out the context for this book, highlighting how environmental challenges have become an important part of the business landscape. In Chapter 1, we introduce the “Green Wave” sweeping the business world, and we present the logic for making environmental thinking a core part of strategy. We also spell out some of the “mega-forces,” like globalization, that give the new environmental imperative greater prominence. Finally, we provide an overview of how we conducted our research and picked the companies that are the focus of this book.

Chapters 2 and 3 introduce the new pressures—both natural and human—coming to bear on companies. These forces make attention to environmental strategy essential for business success. We start in Chapter 2 by highlighting the environmental problems facing humanity and every company, ranging from global warming to water shortages. For each issue in our environmental primer, we offer a crisp summary of the problem, a review of the possible range of effects, and an analysis of how the problem might affect business.

In Chapter 3, we review the growing array of environment-oriented “players” on the field of business. We map 20 different categories of stakeholders from traditional government regulators to powerful nongovernmental organizations (NGOs) to increasingly environmentally focused banks. We highlight the questions these groups are asking about how companies operate.

In brief, this section explains how and why the environment has emerged as a critical strategic issue for companies of all sizes. It sets the stage for our tour of the critical elements of corporate environmental strategy. And it shows how careful thinking about the environment can provide a new basis for competitive advantage.