



How to Boost Your Bottom Line... And Save the Planet, Too

Mark R. Tercek

The old, knee-jerk opposition between business and the environment is yesterday's way of thinking.

Increasingly, top business leaders view nature as a foundational asset base and essential ally to their companies' productivity. If you want your company to thrive, you will need to be bold, think big, and be aggressive about pursuing business opportunities that work with the environment, not against it.

But you will also need to think about nature in terms of risk—and protect yourself against rapid and unpredictable change. Hurricane Sandy was only the latest reminder of the priority of environmental issues. More huge storms will come and shatter what little complacency remains about the importance of nature to business and society.

The message is very clear: Nature is the fundamental underpinning of every single economy on the planet. We ignore it at our peril. But investing in natural capital—the services and resources from nature that business depend on—can bring huge returns. I learned this first hand.

It's Not About Altruism. It's About Making Business Sense.

I was a mainstream banker, with some 20 years at Goldman Sachs, that rose to Partner and Managing Director. When I started paying more attention to environmental issues, I couldn't help but think that there were opportunities for smart investments that would generate both good business and good environmental outcomes.

I began building an environmental effort for Goldman Sachs in 2005, with the support of the CEO at the time, Henry M. Paulson. Our idea was simple: we thought it made great commercial sense to be smarter about environmental issues. Our primary motivation was not philanthropy or corporate social responsibility (important as those are) but purely business.

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The fundamental idea was to look for investment opportunities that produced two kinds of benefits: good commercial results for Goldman Sachs and good environmental outcomes. The more we pursued these win-win opportunities, the more we found.

Corporate heads in a wide range of industries—from chemicals to beverages to mining—now understand these opportunities. At least those that will lead their industries in the future do. Their companies are not sitting back waiting for new regulations, or fighting them. Rather, they are leading—initiating new efforts to analyze and better understand how commercial and environmental efforts can reinforce one another. They are pioneering approaches that apply their unique business resources and strategies to the natural foundations of their companies—and coming up with breakthroughs for both their balance sheets and the planet.

This is not a call for naivete. Businesses must always ask tough questions about what really works. Environmentalists must remain vigilant about identifying and confronting those companies that undermine environmental standards and regulations. Collaboration does not mean that companies should expect a free pass from environmentalists, and watchdog organizations will always play an important role in exposing bad corporate practices.

But even those organizations that push companies hardest see the benefits of working with those willing to do things differently. As Kumi Naidoo, Executive Director of Greenpeace International says, environmentalists should have “no permanent enemies, no permanent friends.”

So, how do companies get themselves ready to lead on the environment as a business opportunity? Here are the key points:

1. Ask: How does, and will, my business interact with the environment?

What natural supplies and services does my corporation depend on? Think big—not just raw materials, but also the river water your facility might use for production, the coastal wetlands that might buffer your operations from storm surges, even the nearby recreational opportunities in nature that your employees enjoy.

Also: How does your business impact the environment? This isn't just about pollution or waste. Does your business planning think about all the stakeholders around your operations and how your corporate activities impact their use of nature?

And finally: How will all this change when nature changes? Because it is, and it will.

To see how these questions are applied in the real world, look at Coca-Cola. Under the leadership of Muhtar Kent, Coke recognizes that its success increasingly depends on where the company gets its water, how much it will cost, how those water supplies will change over time, and the impact Coke's water use will have on people and communities dependent on the same sources.

Water-dependent beverage companies like Coke are ahead of the curve in valuing nature in meaningful ways. They understand that they will prosper or fade based on the availability of the one ingredient for which there is no possible substitute. And they know that they are also directly dependent on consumers who are increasingly willing to choose which products they buy based on a company's environmental record and awareness.

2. Ask: How could improving the relationship between my business and the environment offer us a competitive advantage?

This seemingly counterintuitive question can lead to significant opportunities to both grow businesses and improve environmental outcomes. Consider the natural gas industry, for example.

The key to that booming energy sector is the development of new reserves through the use of hydraulic fracturing (“fracking”) and horizontal drilling. These innovative and controversial processes extract natural gas from shale formations that were until recently considered too expensive to tap. As everyone now knows, fracking and horizontal drilling have unlocked huge new sources of natural gas.

Natural gas could be a great boost for both the economy and the environment. Natural gas has half the carbon content as coal, and new gas plants turn heat into electricity far more efficiently than coal plants, meaning gas contributes far less to climate change. It is also abundant in the US and is low cost. Having a cheap, domestic, low-carbon energy should be a welcome development.

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Fracking, however, also poses very significant environmental challenges. Methane leakage from gas wells can undermine the carbon benefit of natural gas over coal, because methane is a much more potent greenhouse gas than carbon dioxide. If production standards aren't high, methane can also leak from wells into aquifers, putting drinking water supplies at risk. Improperly handled wastewater can pollute streams, rivers, and aquifers with disastrous environmental outcomes. Poorly planned drilling pads can fragment and damage wildlife habitats.

Additionally, all of the commotion associated with new fracking plays—new highways, truck activity, etc.—can be very disruptive to local communities. On top of these risks, many companies joining the fracking boom are start-ups with no environmental track record and unproven management. Clearly, a lot can go very wrong.

These are significant challenges to specific natural gas projects as well as to the industry as a whole. But with the right regulatory oversight and the right industry leadership, each of these risks can be addressed. On the other hand, if these businesses see environmental and community challenges as obstacles to be skirted rather than opportunities for innovation and winning buy-in, fracking could turn from a win-win proposition to lose-lose.

Smart players in the industry, from drillers and processors to pipeline companies and storage facilities, should therefore be champions of good environmental regulation. So should the investors providing capital to these players. Smart companies should also be innovators looking for new technologies and practices to address environmental risks. Those are the companies that will succeed in the long run. Without both effective regulatory policy and innovation, the entire sector will slow or possibly come to a halt.

Your business probably doesn't have as dramatic a set of environmental challenges as the fracking industry. But the lesson is the same for all corporate leaders: View those challenges as opportunities for innovation and high standards that will create a competitive advantage. Exploitative practices might be profitable in the short term—but they erode your natural capital base and likely hasten more regulation down the road.

3. Own your company's environmental efforts.

CEOs need to be out front on their companies' environmental initiatives—leading by example and showing strong personal commitment—so that employees feel comfortable following this new paradigm. Action needs to be substantive so that it is clear they go well beyond rhetoric. Andrew Liveris at Dow, Muhtar Kent at Coca-Cola, and Gregory Page at Cargill are all good examples.

Why would a CEO want to do this? Because environmental change will put businesses under more pressure and scrutiny from both government and the public. Smart businesses will want to get ahead of this trend. The true global leaders have no choice. Politicians like Governor Andrew Cuomo of New York and New York City Mayor Michael Bloomberg see new urgency in the need to address the threats posed by climate change, and forward-thinking businesses will want to be on board. Elected officials know well where their constituents stand on environmental issues, and those constituents are also investors and customers.

In addition, people around the world are increasingly demanding action on key threats like drought, floods, and air and water pollution. Awareness is growing about the important role that intact natural systems play in mitigating these threats and generally improving our well-being and quality of life. I can tell you with absolute confidence that environmental and sustainability issues are not going away. Ignoring them is not a risk any business should take.

4. Hire a great Chief Sustainability Officer.

The position of Chief Sustainability Officer demands not only drive and vision, but commercial credibility within the company. At Coke, for example, Kent chose Beatrice Perez, the Chief Marketing Officer for North America—a very high-profile commercial leadership position at the company—to be Coke’s first Chief Sustainability Officer. That sent an important signal to the rest of the company that sustainability wasn’t about being nice or doing the right thing, but about strengthening the business. To increase Perez’s visibility even further, Kent put her office right next to his.

No one can deny that many environmental trends—climate change, deforestation, urban sprawl—are heading in the wrong direction, and businesses are in the thick of most of them. You’ll need a strategy to meet the challenges, and the right person to implement that strategy. If you don’t have both, your competitors will.

The good news is businesses also now have enormous opportunities to thrive by investing in nature. Consider, for example, the success that companies like Wal-Mart and Unilever have had in working up and down their entire supply chains to make them more sustainable. “Greening” a supply chain is a daunting and on-going challenge, and the willingness of global business leaders to take it on is indicative of the changing relationship between business and the environment.

5. Talk to experts, and to your critics.

Businesses need good advice on environmental concerns. Environmental non-profit organizations can provide it.

For example, as we pursued our environmental initiatives at Goldman Sachs, we began to collaborate with environmental non-profit organizations such as The Nature Conservancy, the Wildlife Conservation Society, the World Resources Institute, Resources for the Future, and others. We were surprised and impressed by how much we learned from these partners. We also thought they learned a lot from us. We became excited about the world of environmental organizations and how they might help business leaders transform regulatory obligations and environmental risks into profitable opportunities.

We also reached out to people who disagreed with us on many things—people like Michael Brune, who was the head of the Rainforest Action Network, a smart and highly effective activist organization, and now head of the Sierra Club. He was not exactly popular in some parts of the business community, having run campaigns against (among others) Citibank and Bank of America, but he gave us great advice.

6. Don't brag.

Don't take victory laps for small changes—just look what happened to BP's much-hyped “Beyond Petroleum” campaign. Don't bother trying to craft a halo for your company; it won't fit, so acknowledge that you have sound business reasons for taking the environment seriously. Be humble, and let your actions speak for themselves.

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7. Be transparent. Share everything.

There will always be great suspicion in many quarters about corporate environmental efforts—and there should be. Too often in the past, companies have talked a good game but behaved very differently. That won't work anymore. It's too transparent a world, which of course is a very good thing. No one will fool anyone else for long. Instead, embrace transparency and disclosure. It's your best line of defense. Be clear about what you are doing. If you make a mistake or fall short of goals, you can learn from the setback and do better going forward.

In 2011, Dow's CEO Andrew N. Liveris challenged The Nature Conservancy to help the company apply the concept of natural capital to his company's business decisions and operations. His questions were eminently practical: How do Dow's operations both affect and depend on nature's services? How would the natural assets that generate such services be accounted for on the company's balance sheet? How vulnerable are those services, and what might Dow do about those vulnerabilities—either on its own or by joining with other stakeholders to influence natural resource policy? How do such services also benefit the community? Would Dow's engagement in these issues have a ripple effect on other companies?

Finding answers to those questions, and sharing them with other companies and scientists, is the heart of a five-year collaboration between Dow and the Conservancy. The collaboration is just

beginning to investigate linkages between business operations and the environment, with the goal of making sure that Dow can value nature and its services in everything the company does.

With the help of conservation scientists and economists, Dow is seeking to incorporate the value of nature into its company-wide goals, strategies, and objectives, and develop tools so that other companies can do the same. One can imagine that protecting nature will become deeply embedded in Dow's corporate culture, and that will be a major milestone.

The project is not without risk, and the Conservancy and Dow have no monopoly on good ideas, but by disclosing all activity along the way and publishing scientific results in peer-reviewed journals, the project will be well-positioned to manage risks, learn from setbacks, build support, and make substantive progress.

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Finally, it is inevitable that not everything you try will work out the way you expect. Don't panic; learn from your mistakes, admit them, and move on. People have a much harder time criticizing real action if it is well thought out, even if the results are not perfect.

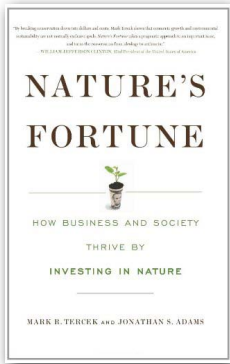
8. Don't feel like you need to invent new approaches.

When I was on Wall Street I could boast of no special experience or credentials in environmental science and policy, and that is precisely the point. You do not need special expertise in the environment to be a business leader in this field. What you do need is a willingness to listen to the experts and act now. No one owns good ideas on the environment. Those ideas are out there. Use them. The major beverage companies, for example, are borrowing heavily from each other and building on efforts to use water more sustainably.

Companies have little to fear and much to gain. There is opportunity in environmental issues, but you have to be willing to step up and lead. If you do, you will make your employees proud. You will make your clients proud. You will make your investors proud. You will help protect the environment. And—importantly—you will materially strengthen your business.

Hurricane Sandy was more than a storm. It was a harbinger of things to come. Environmental change is happening more rapidly than many scientists feared even a few years ago, and that change poses a real threat to the foundation of your business. But you can thrive if you anticipate the change and invest in solutions to those impacts, as well as investing in nature as a fundamental asset base and spur to innovation for your company. **Understanding the value of nature to your business and how to protect that value is an essential competitive advantage in the new age.** 🌱

Info



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ABOUT THE AUTHOR | Mark Tercek is president and CEO of The Nature Conservancy. Before joining The Nature Conservancy, Mark was a managing director at Goldman Sachs where he headed the firm's Environmental Strategy Group and Center for Environmental Markets. Over the course of his more than twenty years there, Mark also headed Corporate Finance, Equity Capital Markets, Consumer/ Healthcare, and Leadership Development. He is a member of many boards and councils, including Resources for the Future, the Nicholas Institute for Environmental Policy Solutions, and the Commission on Climate and Tropical Forests. He is also a member of the Council on Foreign Relations.

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