

## The Pro Shop

# Big Businesses Go Green Without Sacrificing Greed

By Lisa Scherzer

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**EVEN IF YOU PUT** the notion of global warming on par with the golem, environmental sustainability is a theme that's quickly taking stubborn hold in the business world. Now more than ever, corporate leaders are coming around to the idea that doing good by the environment can be good for the bottom line too.

According to Zachary Karabell, executive vice president of New York-based Fred Alger Management, which runs the Spectra Green fund, a fundamental cultural shift has occurred that's dispelling the belief that green practices and profits don't mix. Companies big and small are realizing that customers and employees expect them to operate as socially and environmentally responsible global citizens.

"Companies see the potential compatibility in being more environmentally sound and saving money, and producing higher profit margins," says Karabell.

Case in point: Bank of America announced Tuesday a \$20 billion green initiative, with the goal of diminishing energy use and deploying new technologies to reduce greenhouse-gas emissions. The nation's second-largest bank said \$18 billion will be used for products and services that encourage customers to develop and use green technology (among them, an eco-friendly credit card). And \$1.5 billion will go toward reducing Bank of America's own carbon footprint.

Karabell says companies like Bank of America are recognizing the inherent compatibility of savings costs and improving margins by focusing on sustainability measures. The supply chain, for instance, is an integral part of most businesses — and the place where "greening" can best offer

long-term benefits. Wal-Mart Stores, now becoming known for its green practices as well as for its low prices, encouraged its suppliers to manufacture more environmentally friendly laundry detergents, Karabell notes. A smaller package containing more concentrated detergent saves energy, shipping costs and shelf space.

SmartMoney.com spoke with Karabell about the attitude adjustment in corporate America and why eco-friendly practices can help boost businesses' bottom lines.

SmartMoney.com: What's the motivation behind so many companies going green?

Zachary Karabell: To get the more cynical part of it on the table, it doesn't take a lot of money to talk about the projects companies undertake in a brochure or someplace like that. And customers are highly attuned to these issues now, so in some ways they can recast their images. The second issue we come across is about more than just marketing, what's called "greenwashing," when companies just do it for marketing brochures, and they're not really changing their practices.... But we've found that when companies start talking the talk [about improving their environmental practices], customers will start to expect them to walk the walk. They'll ask, why are you not doing it if you're saying it. So in that sense, I think there's value in putting the cart before the horse.

The reality is that a lot of companies do stuff without marketing it. Like dealing with their supply chains, how they procure their materials. The issue with the supply chain is efficiency: Are you using too much packaging material? If you can cut down on that, you can save money. Cutting down

on that is also highly compatible with sustainability.

Wal-Mart's big example of that is getting the size of their detergent condensed to a smaller bottle by making the detergent more concentrated. A lot of companies have done this, like Staples and Procter & Gamble. Every industry deals with this in some way. Chemical companies have to make plastics, and they have to make insulation for shipping, and also fuel costs for shipping.

**SM:** So adopting environmentally friendly practices is more than just an image-booster? How does focusing on environmental issues help with earnings growth?

**ZK:** Companies see the potential compatibility in being more environmentally sound and saving money, and producing higher profit margins. Bank of America, for example, is building its new 42nd Street headquarters [in New York City] as a green building [constructed largely of recycled and recyclable building materials and featuring sophisticated environmental technologies]. That saves on operating costs. One building's savings contribution to Bank of America's revenues is not very big, but it's a symbol of how you have to save money. If you can cut down on that consumption cost, you cut down on energy, you've helped or pleased society and helped or pleased your shareholders.

**SM:** Are some companies putting these measures in place in anticipation of uncertain environmental regulations the government is likely to legislate?

**ZK:** A lot of the larger companies are global in nature. They want to standardize efficiencies across markets, with

similar factories and similar production. It's more cost effective for them to follow the most restrictive country's environmental policies out there, so then they won't have to redo them [when the U.S. government implements its own standards].... A lot of companies aren't going to wait until federal standards are implemented.

Also, I think it's a cultural shift going on, from skepticism to [the sense that] there's an issue here that needs addressing.... It's a cultural zeitgeist shifting, and companies are always responsive to that.

**SM:** Aren't some of these environmental initiatives too costly for certain companies? Will some be left behind?

**ZK:** Some plants and refineries are old. And it costs a lot to rebuild them. There are industries for which this would be hard. Building a new factory is a costly endeavor. Not all of this is an easy embrace.... It depends on the industry. You have the software industry, which on the whole has a pretty minimal impact on the environment. Some industries are more front and center than others.... Without tax incentives, it's hard for [some companies] to justify it when they're publicly held.

Companies are looking for an edge, and they're looking for market share. They see the potential of inherent compatibility of [espousing] a message of being green along with running a good business. Solar paneling is expensive but it pays for itself after a while. There's a willingness to take on costs to save on operating costs later on.... It's not like this is altruism; it's self-interest of the corporations. A lot of information leads us to think that there's a tradeoff between green investing and companies' returns. It's not necessarily a tradeoff.

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