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Harvard Business Review



on

GREENING YOUR BUSINESS PROFITABLY

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Contents

Why Sustainability Is Now the Key Driver
of Innovation 1

Ram Nidumolu, C.K. Prahalad, and M.R. Ranganwami

Growing Green: Three Smart Paths to Developing
Sustainable Products 23

Gregory Unruh and Richard Ettenson

How to Jump-Start the Clean-Tech Economy 41

Mark W. Johnson and Josh Suskewicz

The Sustainability Imperative 63

David A. Lubin and Daniel C. Esty

Strategy & Society: The Link Between Competitive
Advantage and Corporate Social Responsibility 87

Michael E. Porter and Mark R. Kramer

The Greening of Petrobras 127

José Sergio Gabrielli de Azevedo

A Road Map for Natural Capitalism 139

Amory B. Lovins, L. Hunter Lovins, and Paul Hawken

Don't Tweak Your Supply Chain—Rethink
It End to End 177

Hau L. Lee

Timberland's CEO on Standing Up to 65,000
Angry Activists 197

Jeff Swartz

Competitive Advantage on a Warming Planet 211

Jonathan Lash and Fred Wellington

Index 239

**Harvard
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**GREENING
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Why Sustainability Is Now the Key Driver of Innovation

*by Ram Nidumolu, C.K. Prahalad,
and M.R. Rangaswami*

THERE'S NO ALTERNATIVE TO sustainable development.

Even so, many companies are convinced that the more environment-friendly they become, the more the effort will erode their competitiveness. They believe it will add to costs and will not deliver immediate financial benefits.

Talk long enough to CEOs, particularly in the United States or Europe, and their concerns will pour out: Making our operations sustainable and developing "green" products places us at a disadvantage vis-à-vis rivals in developing countries that don't face the same pressures. Suppliers can't provide green inputs or transparency; sustainable manufacturing will demand new equipment and processes; and customers will not pay

more for eco-friendly products during a recession. That's why most executives treat the need to become sustainable as a corporate social responsibility, divorced from business objectives.

Not surprisingly, the fight to save the planet has turned into a pitched battle between governments and companies, between companies and consumer activists, and sometimes between consumer activists and governments. It resembles a three-legged race, in which you move forward with the two untied legs but the tied third leg holds you back. One solution, mooted by policy experts and environmental activists, is more and increasingly tougher regulation. They argue that voluntary action is unlikely to be enough. Another group suggests educating and organizing consumers so that they will force businesses to become sustainable. Although both legislation and education are necessary, they may not be able to solve the problem quickly or completely.

Executives behave as though they have to choose between the largely social benefits of developing sustainable products or processes and the financial costs of doing so. But that's simply not true. We've been studying the sustainability initiatives of 30 large corporations for some time. Our research shows that sustainability is a mother lode of organizational and technological innovations that yield both bottom-line and top-line returns. Becoming environment-friendly lowers costs because companies end up reducing the inputs they use. In addition, the process generates additional revenues from better products or enables companies to create new

Idea in Brief

When companies pursue sustainability, it's usually to demonstrate that they are socially responsible. They expect that the endeavor will add to their costs, deliver no immediate financial benefits, and quite possibly erode their competitiveness. Meanwhile, policy makers and activists argue that it will take tougher regulations and educated, organized consumers to force businesses to adopt sustainable practices. But, say the authors, the quest for sustainability can unearth a mother lode of organizational and technological innovations that yield both top-line and bottom-line returns. That quest has already begun to transform the competitive landscape, as companies redesign products,

technologies, processes, and business models. By equating sustainability with innovation today, enterprises can lay the groundwork that will put them in the lead when the recession ends. Nidumolu, Prahalad, and Rangaswami have found that companies on the journey to sustainability go through five distinct stages of change: (1) viewing compliance as opportunity; (2) making value chains sustainable; (3) designing sustainable products and services; (4) developing new business models; and (5) creating next-practice platforms. The authors outline the challenges that each stage entails and the capabilities needed to tackle them.

businesses. In fact, because those are the goals of corporate innovation, we find that smart companies now treat sustainability as innovation's new frontier.

Indeed, the quest for sustainability is already starting to transform the competitive landscape, which will force companies to change the way they think about products, technologies, processes, and business models. The key to progress, particularly in times of economic crisis, is innovation. Just as some internet companies survived the bust in 2000 to challenge incumbents, so, too, will sustainable corporations emerge from today's recession to upset the status quo. By treating sustainability as

a goal today, early movers will develop competencies that rivals will be hard-pressed to match. That competitive advantage will stand them in good stead, because sustainability will always be an integral part of development.

It isn't going to be easy. Enterprises that have started the journey, our study shows, go through five distinct stages of change. They face different challenges at each stage and must develop new capabilities to tackle them, as we will show in the following pages. Mapping the road ahead will save companies time—and that could be critical, because the clock is ticking.

Stage 1: Viewing Compliance as Opportunity

The first steps companies must take on the long march to sustainability usually arise from the law. Compliance is complicated: Environmental regulations vary by country, by state or region, and even by city. (In 2007 San Francisco banned supermarkets from using plastic bags at checkout; San Diego still hasn't.) In addition to legal standards, enterprises feel pressured to abide by voluntary codes—general ones, such as the Greenhouse Gas Protocol, and sector-specific ones, such as the Forest Stewardship Council code and the Electronic Product Environmental Assessment Tool—that non-governmental agencies and industry groups have drawn up over the past two decades. These standards are more stringent than most countries' laws, particularly when they apply to cross-border trade.