

Greener Pastures

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Ford's announcement last month of a major financial restructuring, on top of earlier news of third-quarter losses of \$5.8 billion as well as plans to lay off one-third of its 47,000 salaried workforce and shutter 16 facilities, shocked many people. The company's disintegration should not, however, come as a surprise. Ford's blue-and-white logo once embodied America's industrial might. It now stands as a symbol of short-sighted management.

In particular, Ford executives misjudged the strategic importance of a cluster of energy and environment issues. The company continued to bank on gas-guzzling SUVs and light trucks even as fuel prices shot up, tailpipe emissions loomed larger as an issue, and consumer tastes shifted toward more fuel-efficient cars. Meanwhile, Toyota's brisk trade in green vehicles like the hybrid Prius and a "cool" and eco-friendly reputation leave it enjoying record profits and poised to overtake GM as the world's largest auto maker.

Ford isn't the only company to have been blindsided by the "Green Wave" washing over the business world. But it is ironic that just-departed CEO Bill Ford, who was known for his environmental interests, never succeeded in getting his leadership team to understand the need to make the environment a core element of the company's business strategy.

Today, no company can afford to ignore the challenges posed by pollution control, natural resource management and energy consumption. Business leaders in manufacturing and services, big companies and small, must prepare for a world of tighter supplies of fossil fuels (and resulting high prices), greenhouse gas emissions controls, limited water and rising resource costs. Businesses also face demands from an array of new environment-oriented stakeholders including bankers, market analysts, customers, employees and communities, in addition to the traditional pressures from regulators, environmental groups and other NGOs.

While every business must manage the risks and costs of environmental protection, some are also finding an upside to going green. With its "ecomagination" thrust, GE has positioned itself to respond to society's environmental problems. CEO Jeff Immelt envisions billion-dollar businesses selling wind turbines, more efficient jet engines and drinking-water purification systems. From Ikea to Coca-Cola, companies are finding ways to differentiate their products, create new lines of business, win customer loyalty and enhance their brand value by taking up their customers' environmental interests and values.

Even Wal-Mart has emerged as a major player in the world of corporate sustainability. CEO Lee Scott has promised to cut his company's energy use by 30%, reduce waste by 25%, and become the world's leading seller of organic products.

So what went wrong in Detroit? And what are the lessons for the business community more generally? Three main points can be drawn from Ford's collapse, which has a number of causes, including skyrocketing health-care costs and burdensome retiree benefits, but a fundamental link to mishandled environmental strategy.

First, the Green Wave is real. Companies need to learn how to manage environmental challenges or they will be taken under. It is not enough to sponsor beach clean-ups and contribute a few dollars to the local environmental group. Corporate leaders need to look at their operations through a green lens and fold environmental thinking into their core business strategy.

Second, to target their environmental efforts, companies need to map their ecological "footprint." Ford had eco-initiatives, but they failed to address the company's real vulnerabilities. In fact, Ford's redesigned River Rouge manufacturing facility had state-of-the-art environmental features including a grass roof and natural ventilation. And the company contributed millions of dollars to rainforest protection. But Ford's problem wasn't pollution at its factories, and it certainly wasn't deforestation of the jungle. No, Ford's strategic focus needed to be on its vehicles. The market shift toward more eco-friendly and efficient cars caught Ford flat-footed with a product line heavy on fuel-chugging and pollution-spewing behemoths like the Expedition and Navigator.

Every business needs to understand its environmental exposure. If you're Coca-Cola, you need to face up to water issues -- as CEO Neville Isdell is doing. If you're an auto maker, fuel efficiency and tailpipe emissions have to be at the heart of your strategy.

Third, there is money to be made solving society's environmental problems. If GE's multibillion-dollar bet on ecomagination is not a sufficient signal of this reality, Toyota's success surely is. Dozens of other companies are finding opportunities to turn green to gold. Shaklee, for example, has built a thriving business selling nutritional supplements and eco-safe cleaning supplies with a focus on living in harmony with nature. To back up its green image, the company has promised to offset all its carbon emissions and to plant a million trees in North America.

The bottom line is clear: Environmental factors have emerged front and center in business. Ford is paying a high price for missing this development. No company can afford to ignore this object lesson.

Mr. Esty, a professor at Yale, is the author, with Andrew Winston, of ***Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage*** (Yale University Press, 2006).