

The Messy Transformation

The world is a mess. Stocks are plunging. Macroeconomic indicators are at their lowest point in memory. And consumers are not spending. Yet we see green opportunity flowing out of a chaotic time.

In March 2009, *Fast Company* published: “*The World’s 50 Most Innovative Companies.*” Guess what? 40% of those named have sustainability issues at their core. Close to 20% are pure green tech plays; another 20% drive green growth. But that’s not all. Many of the remaining 60% are product and service companies that manage sustainability with the same innovative mindset they use to drive their whole enterprises.

What does this mean? Now may be the time to make money by going green. Current financial pressures give every reason to sit tight. But waiting too long will increase the risk of losing competitive edge.

But is Now the Right Time?

We say yes, but the timing is tricky. While the global economic situation provides ample reason for delay and doubt, broad macro forces are “stepping on the accelerator.” They are speeding up transformation to an economy that is less petroleum-based, provides greater security, and better aligns economic systems with natural forces. The “accelerator” messages are clear:

“My presidency [marks] a new chapter in America’s leadership on climate change that will strengthen our security and create millions of new jobs in the process.”

Barack Obama, November 18, 2008

- A November 26, 2008, global HSBC poll found that 43% see climate change as a bigger problem than the economy.
- A November 17, 2008, executive order committed California to getting a third of its electricity from renewable sources by 2020.
- Japan plans to increase non-fossil energy to 50% by 2020.

The capital markets and investors today consider sustainability a key investment area. A recent report from Allianz Global Investors found that:

- 74% of investors believe the new Congress will strongly promote business investment in environmental technology.

- 97% believe that exploring alternative fuel sources remains important despite declining gas prices.
- 78% say environmental technology has the potential to be the “next great American industry,” and 64% consider the sector to be their “most desirable” investment.
- 72% contend that plunging stock prices have had no effect on their inclination to invest in environmental stocks.
- 22% made investments in 2008 to capitalize on environmental trends compared to 17% who did so in 2007.

Preparing for Green Growth

The 2008 implosion of the capital markets is forcing major realignments in strategic plans and areas of focus. While liquidity is now king, and will continue that way for much of 2009, companies can use this period to prepare themselves for clean tech and green tech growth.

Succeeding will require bold strategic choices and systematically greening product lines.

Bold Strategic Choices

Given the number of firms who are seeing central change in how they operate, the “messy transformation” requires what economist Joseph Schumpeter called “creative destruction.” For example, a number of companies, faced with dying economic models, successfully reinvented themselves.

- *Nokia*, founded as a paper mill, became a rubber maker, a cable business, and a radio company before transforming itself into the leading cell phone producer globally.
- *Honeywell*, whose roots trace in part to AlliedSignal, and to Allied Chemical Company’s environmental (kepone) tragedy, today has half of its \$37 billion business portfolio related to energy efficiency.
- *IBM*’s strategic transformation from products to services and solutions is increasingly focused on tackling the world’s toughest problems – specifically energy and



greenhouse gas reduction. Why? Because this is a key issue for IBM customers.

- *Philips*, the Dutch industrial giant, sees two key trends: the population is getting older and getting greener. These guide the company as it sheds traditional home electronics and invests in hospital monitoring equipment and low-energy products.

Broad macro-environmental forces (carbon costs, energy prices, increased consumer awareness, water shortages, and pricing) will dramatically affect asset values. Understanding the effect of these trends on your balance sheet will be critical to emerging from the “messy transformation” poised for profitable growth.

Green Product Investment

Today’s innovation leaders create products and services that help dramatically reduce their customers’ full life-cycle environmental footprints and, at the same time, help solve the world’s toughest problems.

- Germany’s \$240 billion renewable energy industry already employs 250,000 people; and by 2020 it is expected to provide more jobs than the country’s auto industry.
- *P&G* has committed to develop \$20 billion worth of “sustainable innovation products” over the next five years.
- *Wells Fargo* made a \$1 billion commitment in 2005 to environmental business opportunities. Since then it has provided more than \$3 billion in green investments.

Companies looking to benefit from the wave of green innovation need not make an “all or nothing” bet. They can tap into a stock market packed with intellectual property for sale, thanks to the credit crisis.

Actions to Take Now

The right actions today need to be low-cost, high-impact. They require the best thinking of your seasoned executives *and* your next-generation leaders. They demand a global perspective. Here is what we recommend:

Sustainability Audit. Most companies keep doing their traditional environmental audits as if the world hasn’t changed. Redirect a portion of those resources to a sustainability audit. Analyze your corporate strategy using a robust scorecard

for sustainability. Put your key business decisions (R&D, acquisitions, product launches, expansion plans, etc.) under a “green microscope” – and make decisions accordingly.

Tool Kit Overhaul. Most companies still use the same sustainability tool kit (goals, metrics, partnerships, reports, etc.) that might have been right for the past few years but may be vastly insufficient going forward.

Sustainability Master Class. Successful companies will be more aware of these trends than their rivals. Invest time in a carefully planned and facilitated “master class” that aligns executive thinking and corporate strategy around sustainability.

Conclusion

Crisis breeds opportunity. 2008 will go down in history as the time when megaforges of financial meltdown and ecological destruction hit head on – creating massive disruption and sparking the “messy transformation” that will enable smart companies to innovate their way to a green future.

Most sustainability *activity* to date has been about “reducing the bad” (costs and risks) by focusing on energy efficiency, reduced packaging, stakeholder engagement, public reporting, etc. That is all fine. But the *sustainability transformation must be purely about creating value* for shareholders and for society. Nothing more; nothing less. Thus, the future action is in “creating the good” – focusing on growth options and winning tomorrow’s customers.

About the Authors

Gib Hedstrom has 25 years of experience in helping boards of directors, CEOs, and senior executives manage environmental and social issues to reduce cost, limit risk, and strengthen reputation and shareholder value. He founded Hedstrom Associates in 2004.

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