

Corporate Responsibility and the Environment:

What is the Right Thing to Do?

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## **Introduction**

In the past few decades the environment has been on the forefront of people's minds across the globe; in fact, it is the number one shared concern among most nations. Corporations have had to respond to this environmental wave by adjusting their business models to ensure that they follow environmental regulations. Leading experts argue that businesses should go a step further and add environmentally responsible initiatives to their agenda because it will ultimately make them more profitable. This is known as corporate social performance (CSP) which is strategic behavior done by a firm that engages in some environmental action beyond what the law requires because they think this action will help increase profit and therefore shareholder's dividends. In the past there has always been a conflict between being socially responsible and upholding fiduciary responsibilities towards shareholders. This new theory helps resolve past discrepancies and will become increasingly important as public opinion changes and requires businesses to take more environmentally friendly actions in the future.

## **History of Environmental Interest**

Environmental issues have long been connected to business since the early pollution incidents that occurred during the Industrial Revolution. As early as 1556, a writer claimed that "mining yielded greater detriment to the environment than it produced value in minerals." This was even worse during the Industrial Revolution, which occurred in the late 18<sup>th</sup> century, because people observed "the atmosphere was poisoned, every green thing blighted, and every stream fouled with chemical fumes and waste" because of corporate

irresponsibility.<sup>1</sup> These observations were not out of the ordinary but it wasn't until the late 19<sup>th</sup>, early 20<sup>th</sup> century that people began to get more involved.

During this time period there were two key strands of the United States environmental movement; protectionists who wanted land and nature set aside for its own sake and conservationists who wanted to manage natural resources for exploitation.<sup>2</sup>

Some major leaders of the early movement included Henry David Thoreau and John Muir. Thoreau, a writer, got people to think critically about the environment when he wrote the book *Walden*; or, *Life in the Woods* and John Muir founded the Sierra Club, now one of the largest conservation organizations in the United States, and helped create the world's first national park at Yellowstone in 1872. This was the birth of environmental activism through the written word and non-profit organizations. Despite these early efforts though much remained unregulated and people didn't show the appropriate level of concern to invoke change. It wasn't until Rachel Carson published her book, *Silent Spring*, in 1962 that people began to show widespread public environmental concern; this is considered to be a major turning point in the environmental movement. In fact, "the mission of *Silent Spring* became nothing less than an attempt to create a new environmental consciousness."<sup>3</sup>

Carson's rhetoric was powerful and conveyed a strong message to the American public. She said things like "For the first time in the history of the world, every human being is now subjected to contact with dangerous chemicals, from the moment of conception until death." Her book documented detrimental effects of pesticides, like DDT, on the environment. Her main focus was to look at effects of this pollution on the great American

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<sup>1</sup> Eden, Sally. Environmental Issues and Business: Implications of a Changing Agenda.

<sup>2</sup> Kraft, Michael E. and Scott R. Furlong. Public Policy: Politics, Analysis, and Alternatives.

<sup>3</sup> Gottlieb, Robert. Forcing the Spring: The Transformation of the American Environmental Movement.

eagle; she proved that the DDT caused thinner egg shells and resulted in reproductive problems and death. She openly accused the chemical industry of spreading disinformation which led to a direct investigation of the synthetic pesticides industry.<sup>4</sup> From this point forward people became much more active in the environmental movement and began to distrust and blame businesses for their “un-green” policies.

### **Environmental Movement Today**

After Silent Spring public response caused Congress to pass many new policies that focused on natural resources. The set aside land to preserve some natural forests, tried to facilitate local and state acquisition of land for parks, and worked to preserve certain rivers. The government still remained extremely lax when it came to pollution control issues until Congress realized that there had been a great shift in public opinion based on the increased membership of groups like the Sierra Club, the Audubon Society, and the Natural Resources Defense Council. The main pressure was to have the federal government stop widespread pollution by businesses; remarkably, there was a rapid response to the outcry and legislation like the Clean Air Act, Endangered Species Act, and Clean Water Act were passed relatively quickly.<sup>5</sup>

Today, environmental scientists now understand that “the environment is a...set of natural systems that interact in complex ways to supply humans and other species with the necessities of life, such as breathable air, clean water, food, fiber, energy and the recycling of waste.” That is why at the 1992 Earth Summit, delegates from 179 nations, met to address environmental concerns by “emphasizing sustainable development, or economic growth that

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<sup>4</sup> Carson, Rachel. Silent Spring.

<sup>5</sup> Kraft, Michael E. and Scott R. Furlong. Public Policy: Politics, Analysis, and Alternatives.

is compatible with natural environmental systems and social goals.<sup>6</sup> Obviously, the environment has become a hot topic over the years and so has finding someone to blame. There were many critiques over the role of business and many people “increasingly cast business as the villain of environmental damage.” This loss of public trust and legitimization has continued to grow after incidents like the Exxon-Valdez oil spill in 1989 and the ever-increasing threat of global warming.<sup>7</sup> Recently though corporations have started to turn away from the traditional views of business and work towards becoming more environmentally friendly.

### **Mega Environmental Issues**<sup>8</sup>

The number one environmental issue that people, and businesses, should be worried about is climate change. In 2007, the Intergovernmental Panel on Climate Change “declared human-induced global warming ‘unequivocal.’” Climate change is caused by the build-up of greenhouse gases in the atmosphere. The greenhouse gases are mainly caused by the burning of fossil fuels for transportation, residential and commercial use, and manufacturing.

Some of the problems associated with climate change are global warming which in turn melts the ice caps which raises sea levels, changes rainfall patterns, and increases the intensity of storms (e.g. Hurricane Katrina).

Climate change could also have serious consequences on businesses; The British government’s Stern Review suggested that “failing to address climate change could inflict economic damages of roughly 5 percent of global gross domestic product...under more

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<sup>6</sup> Kraft, Michael E. and Scott R. Furlong. Public Policy: Politics, Analysis, and Alternatives.

<sup>7</sup> Eden, Sally. Environmental Issues and Business: Implications of a Changing Agenda.

<sup>8</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

severe scenarios; losses could amount to as much as 20 percent of world economic output.” Some actual examples of how climate change could affect businesses include changed rainfall patterns hurting farmers, ski resorts melting away, and severe storms hurting transportation and vacation industries.

Another major environmental issue is water; the very essence of life. In the present we are already having major issues with water quality and quantity. Water quality is threatened by contamination from chemicals caused by industrial run-off. Water quantity issues arise because the Earth is a closed system and freshwater has a fixed supply. In many cases people and businesses are using more water than the natural rainwater cycle provides which is greatly depleting our resources.

Some of the possible business consequences include losing money from lawsuits, shut-down factories, and loss of the actual business. One example of this is how the 1.4 billion dollar Valdivia pulp and paper mill in Chile was forced to close down for a month, losing the company 10 million dollars in profit, because the company let untreated waste enter into local wetlands and was responsible for the death of thousands of swans.

Biodiversity and land use is another major environmental concern. Biodiversity is extremely important because it preserves our food chain and the ecosystems in which all life depends and holds the possibility of discovering new food or drug products. The UN’s Millenium Ecosystem Assessment confirmed that the “extinction rate is now as much as 1,000 times higher than the average rate over Earth’s history.” Right now we may see as many as one-quarter of all plant species become extinct within one human generation. Polar bears, many of the big cats, and millions of other animal species may also become extinct

very soon. One reason why this is occurring is the rapid development of land used by corporations and other smaller businesses.

The impacts that a business could feel are that it will miss out on some amazing new scientific discoveries, like a potential wonder drug, due to the loss of biodiversity. Biodiversity has real value to businesses because it gives companies the possibility of gaining a competitive edge and increasing profits.

Some other major environmental issues that exist are energy; chemicals, toxics, and heavy metals, air pollution, waste management, ozone layer depletion, oceans and fisheries, and deforestation. Some of these have regulatory consequences on businesses like air pollution and waste management while others have potential business opportunities like the ability to recycle and reuse old products in new products. The environment affects all life, including human beings, so businesses need to realize and take responsibility for their actions and think creatively to make new advantages for themselves.

### **Corporate Social Responsibility Trends**

The conflict between environmental protection and economic competitiveness is a false dichotomy. Many critics often say that going green hurts a companies main purpose, to increase shareholder value or its' bottom line. But "strict environmental regulations do not inevitably hinder competitive advantage against foreign rivals; indeed, they often enhance it. I found the nations with the most rigorous requirements often lead in exports of affected products. Environmental protection is a universal need, an area of growing expenditure in all the major national economies."<sup>9</sup> Other critics go a step further and suggest that

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<sup>9</sup> Welford, Richard and Richard Starkey. Business and the Environment. Taylor and Francis: Washington D.C. 1996.

“corporations’ myopic fixation on the ‘ethic’ of maximizing short-term shareholder profit, versus long-term stakeholder value, is based on false premises rather than legal obligations.”<sup>10</sup> Business leaders must realize that the environment is not a fringe issue and can end up costing real money for a business if not addressed early. By taking steps to address issues, real benefits can emerge from seeing things in a new light. Smart companies seize competitive advantage through strategic management of environmental challenges.<sup>11</sup> That is why a new theory has evolved called social corporate performance to help alleviate the stress between the two opposing viewpoints. This theory suggests that a company can actually perform better and raise stock price by staying cutting edge and investing in green initiatives, thereby boosting all of the companies’ stakeholders<sup>12</sup>.

According to a study conducted by APCO Worldwide, American citizens are increasingly holding businesses to a higher standard on environmental issues than it does the U.S. government. More than half of Americans have also agreed with the statement “protecting the environment should be a high priority, even if economic growth suffers.” Whereas as about 20% less people said “economic growth should be a high priority, even if the environment suffers.”<sup>13</sup> The Gallup Organization also reported that the percentage of Americans who worry about the environment “a great deal” or “a fair amount” increased from 62 to 77 percent between 2004 and 2006. This definitely illustrates how public concern

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<sup>10</sup> Willard, Bob. The Next Sustainability Wave: Building Boardroom Buy-In.

<sup>11</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>12</sup> Cooper, Stuart. Corporate Social Performance: A Stakeholder Approach. Ashgate Publishing Company: Burlington VT, 2004. A stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives.” This is considered to be a much more ethical and moral system of evaluating value added to a company.

<sup>13</sup> Price, Tom. Issues for Debate in American Public Policy. “The New Environmentalism.” CQ Press: Washington D.C., 2008.



towards the environment is greatly increasing and how they are less and less likely to tolerate perceived bad behavior by companies.<sup>14</sup>

Business leaders have noticed the trend because in a 2005 PricewaterhouseCoopers survey of chief executives in 43 countries they had 87 percent of business leaders saying environmental sustainability is important to company profits. That represented a rapid rise from 79 percent in 2004, and 69 percent in 2003. These corporate executives said that there was a variety of reasons that they implemented green practices, which included the following reasons: to attract more customers, cut costs, drive up the value of their companies' stock, recruit and retain high-quality employees and assure their companies' long-term health.<sup>15</sup> Because of the globalization of the world's economies it is even more important for businesses to ensure that they are environmentally responsible.<sup>16</sup> Business leaders can use strategic leadership to help formulate and articulate a vision depicting a social reality while also using it to enhance a firm's sustainable competitive advantage. "The exercise of strategic leadership, given the inherent tension within it, can be accomplished by means of integrity. In particular, integrity can relate strategic planning oriented to financial gain to the relatively broad encompassing vision of leadership in such a way that both retain their respective structural and substantive integrities."<sup>17</sup> Basically, businesses can really get ahead if they act with integrity, work to improve the environment by creating new, efficient business techniques and take this green revolution seriously.

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<sup>14</sup> Gallup. Environment Poll. <<http://www.gallup.com/poll/1615/environment.aspx>>.

<sup>15</sup> Price, Tom. Issues for Debate in American Public Policy. "The New Environmentalism." CQ Press: Washington D.C., 2008.

<sup>16</sup> Rugman, Alan M. and Alain Verbeke. "Corporate Strategy and International Environmental Policy." *Journal of International Business Studies*. Volume 29, Edition 4, 1998.

<sup>17</sup> Worden, Skip. "The Role of Integrity as a Mediator in Strategic Leadership: A Recipe for Reputational Capital." *Journal of Business Ethics*.

While all businesses need to become more environmentally friendly there are a few types of businesses where this knowledge is especially relevant. The types of businesses that should really be paying attention are: companies with high brand exposure (e.g. Coca-Cola, Procter and Gamble, and McDonalds); companies that deal with extractive industries or heavy manufacturing (e.g. Exxon and BP); companies that have a dependence on natural resources like companies that sell fish, food, or forest products (e.g. Cargill, Nestle, and International Paper); companies that have a current exposure to regulations (e.g. companies that handle hazardous material (DuPont), companies that operate in heavily regulated industries like utilities (AEP), and energy intensive sectors (airlines)); companies with increasing potential for regulation (e.g. automakers and electronics producers who maybe have to handle the disposal of products once customers are done with them); companies with competitive markets for talent (e.g. service sector companies such as Citigroup, Intel, or Microsoft); and finally companies with established environmental reputations.

### **Reasons Why Businesses Want to be Green?**

#### **Right Thing to Do:**

Many executives are making changes because they say “it is the right thing to do.” Executives are having big wake up calls based on personal experiences like becoming parents or grandparents that makes them think about the bigger implications of their company’s operations.<sup>18</sup> GE’s CEO Jeff Immelt said “to be a great company, you have to be a good company.” Companies that are both great *and* good inspire customers to feel strongly about those brands and encourages employees to work harder. Wal-Mart CEO Lee Scott also

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<sup>18</sup> Goleman, Daniel. Ecological Intelligence. Broadway Books: New York, 2009.

has said “there is virtually no distinction between being a responsible citizen and a successful business...they are one and the same for Wal-Mart today.”

This seems to be more than just a fad because according to a survey conducted by the US Chamber of Commerce businesses “overwhelmingly believe they should operate ethically and be good corporate citizens.” Approximately 11,800 organizations have endorsed the Earth Charter, which “encourages respect and care for the community of life, ecological integrity, social and economic justice, democracy, nonviolence, and peace.”<sup>19</sup> Businesses have become more aware of their impact on other stakeholders and now want to reduce the negative externalities they have on these other key players. An externality is when the “actions of one party result in unwanted costs being visited on another party.”<sup>20</sup> As a new wave of younger, more environmentally friendly CEO’s take over the business world “a sustainability agenda becomes a leadership agenda linked to corporate vision, core values, and core culture.”<sup>21</sup> We will definitely see a change in the way business is done with this new group of CEOs.

### **Reputation:**

A company’s reputation is incredibly important which is why many companies are now realizing that going green gives them a “better public image, good publicity and customer loyalty.”<sup>22</sup> The 2004 World Economics Forum “Voice of the Leaders” poll of CEOs from the world’s leading 1,000 companies found that “on average, 60% of the market capitalization of corporations is based on ‘hard’ financial data, while 40% is dependent of

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<sup>19</sup> Willard, Bob. The Next Sustainability Wave: Building Boardroom Buy-In.

<sup>20</sup> Bromley, David W. Environment and Economy: Property Rights and Public Policy.

<sup>21</sup> Willard, Bob. The Next Sustainability Wave: Building Boardroom Buy-In.

<sup>22</sup> Eden, Sally. Environmental Issues and Business: Implications of a Changing Agenda.

reputation.”<sup>23</sup> For instance, an example of a company whose reputation was deeply damaged by taking a negative stance against the environment was Shell. In 1995, Shell had a plan to dump a defunct oil rig into the Atlantic Ocean. In response, Greenpeace boarded the rig and claimed that Shell would be polluting the ocean with thousands of pounds of toxic chemicals. Shell made the situation even worse when they turned water cannons on the protestors in what has become known as “one of the worst public relations moves in corporate history.” After this event, customers began boycotting Shell gas stations and didn’t want to be affiliated with the company anymore.<sup>24</sup>

The different groups that a business needs to worry about when considering their environmental policy include consumers, business-to-business customers, employees, banks, insurance companies and stock market analysts. Consumers want to know what’s in the products they are buying because they want to make sure they are safe and environmentally friendly. Business-to-business customers are beginning to demand that suppliers reveal how their products are made and what exactly is in them. Wal-Mart is an example of a company that requires their suppliers to fill out an environmental report in order to make sure that they are meeting Wal-Mart’s high environmental standards.<sup>25</sup> In order to attract the best employees, businesses are trying to make the workplace somewhere where you can align both your professional and moral goals. Banks give better loan decisions based on environmental variables, insurance companies view environmental risks as business threats and stock market analysts are beginning to notice trends between environmentally friendly

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<sup>23</sup> Willard, Bob. The Next Sustainability Wave: Building Boardroom Buy-In

<sup>24</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>25</sup> Wal-Mart 2009 Sustainability Report. Sustainable Buildings. <<http://walmartstores.com/Sustainability/9124.aspx>>.

companies and their market influence. Overall, businesses are interested in the environment because “companies can make money by being green and avoid the risks associated with being called noxious polluters.”<sup>26</sup>

### **Pre-emption:**

Another reason why businesses want to be green is in order to “pre-empt public criticism and possibly restrictive legislation.” Poor or non-existent publicity can be detrimental to a company so it much more effective to take initiative and ensure that there is positive publicity to avoid image problems. Studies have shown that bad publicity “can be more damaging indirectly through its effect on reputation than directly through the financial penalties imposed.” An example of this is the damage caused by the Exxon Valdez tanker spill off Alaska’s shore; the company’s share price dropped 12 dollars representing “a total market decline in expectations of 5 to 15 billion dollars.” The clean-up of the spill only cost the company \$4 billion dollars, including the 1.5 billion dollar fine.<sup>27</sup>

Another example of this is when the Dutch government blocked the Sony Corporation’s entire European shipment of PlayStation game systems because “a small, but legally unacceptable, amount of the toxic element cadmium was found in the cables of the game controls.” Sony had to swap out the tainted wires and spent 18 months trying to improve their environmental standards by inspecting factories and changing their supplier management system. All of these changes cost the company about 130 million dollars.<sup>28</sup>

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<sup>26</sup> Johnston, Josee, Michael Gismondi and James Goodman. Nature’s Revenge: Reclaiming Sustainability in an Age of Corporate Globalization.

<sup>27</sup> Eden, Sally. Environmental Issues and Business: Implications of a Changing Agenda.

<sup>28</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

### **Increased Profitability:**

Perhaps the largest motivator for change is the chance to gain a competitive advantage and increase profitability. Under this new system of corporate social performance or sustainable development people are saying that “we can have it all: economic growth, environmental conservations, social justice; and not just for the moment, but in perpetuity.” Businesses are using this new system because it “assumes that a win-win situation for people and the planet can be achieved without sacrificing profits or requiring state intervention and regulation.”<sup>29</sup>

One avenue to explore is reducing costs through environmentally friendly initiatives; one executive said “there are even more opportunities [that can make money] by reducing costs, and hence enhancing profitability and competitiveness, by attention to detail.” In fact, as early as the 1990’s environmental policy consultants have estimated “that 40% of companies had made savings in production through purchasing environmental technologies.”<sup>30</sup> Businesses can work to increase eco-efficiency by improving resource productivity, increase eco-expense reduction by cutting environmental costs and regulatory burden, and lower chain eco-efficiency by lowering costs upstream and downstream.<sup>31</sup> One example of this is green buildings. “Well-designed green buildings yield lower utility costs, great employee productivity, less absenteeism, and stronger attraction and retention of workers than standard buildings do.”<sup>32</sup>

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<sup>29</sup> Johnston, Josee, Michael Gismondi and James Goodman. Nature’s Revenge: Reclaiming Sustainability in an Age of Corporate Globalization.

<sup>30</sup> Eden, Sally. Environmental Issues and Business: Implications of a Changing Agenda.

<sup>31</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>32</sup> Lockwood, Charles. “Building the Green Way.” Harvard Business Review on Green Business Strategy.

Another avenue to explore is increasing revenues by creating environmentally friendly products, services, etc. A company can do this through eco-design by meeting customer's environmental needs, eco-sales and marketing by building product position and customer loyalty on green attributes, and defining new eco-market space by promoting value innovation and developing breakthrough products.<sup>33</sup> One example of this is organic food products.

On the flip side companies that don't factor the environment into their business can expect a loss of revenue due to the decay of their industry. For instance, executives at consumer products giant Unilever saw a big threat to one of their product lines; "the supply for the frozen fish sticks business was at a risk because the world's oceans were running out of fish." Unilever took action and called in leading experts on sustainable development and people from the World Wildlife Fund to help set up the Marine Stewardship Council which is an independent body to promote sustainable fisheries around the world. This council certifies fisheries that limit the total catch and gives them incentives to do so by committing to buying 100% of its fish from sustainable sources. Unilever's CEO said "as one of the world's largest purchasers of fish, it is in Unilever's commercial interest to protect the aquatic environment from fishing methods that will ultimately destroy stocks."<sup>34</sup>

### **Successful Denominators**

There have been some distinguishing factors that link most successful environmentally-friendly companies. One is that they think broadly about "the time frames

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<sup>33</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>34</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

involved in investment and strategy decisions, the full range of potential payoffs from those investments, including hard-to-measure intangible gains, and possibilities for adding value across the full chain of production. These companies consider both short-term financial impacts and long-term business decisions. They also have a commitment to environmental thinking at the very top of the organization which helps them make choices based on core values even when it might not pay off in the short term.<sup>35</sup>

One example of this is how 3M stuck by its promise to never use volatile organic compounds because they release dangerous pollutants. People loved 3M's sticky notes but wanted them to have a stronger adhesive tab; in order to create this tab they needed to use volatile organic compounds but they didn't despite consumer demand. Instead they worked extremely hard to create a non-toxic adhesive that would work just as good. It took 3M six long years before they could eventually release the product but the wait was worth it because it was a major success and made millions of dollars in sales. 3M could have decided that the immediate loss of profit was too great and decided to use the volatile organic compounds but they didn't which really showed everyone that the company was serious about reducing its "ecological footprint." By sticking to their mission they proved that they were "a stronger business that was safer for employees, better for the environment, and more profitable."<sup>36</sup>

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<sup>35</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>36</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.



**Steps for Success**<sup>37</sup>**Short-Term Efforts:**

The very first action that a company must do in order to begin being an environmentally responsible company is to have the CEO issue a statement committing the company to environmental values and goals. The CEO must then talk with top managers to ensure that they understand that he/she is serious about this new initiative so that they are ready for questions from their subordinates. A statement should be made company-wide explaining this new vision and listing specific goals for the company so that people know how to get on board with the new initiative. Without support from upper management, employees will feel torn between producing profits and taking the environment seriously.<sup>38</sup>

Before issuing a public statement the company should come up with a priority action plan. An action plan will have identified the top environmental issues that your business faces and what your internal strengths and weaknesses are in regards to the environment. With this information you can then develop both short and long term plans to address the identified pressing matters and to fill critical gaps and improve your weaknesses. A smart idea would be to start out with pilot programs so that you can measure how effective your new strategies are in increasing benefit for the company and the environment. One example of a successful pilot program is when Citigroup bought 30% recycled paper for printers and made double-sided copies the standard. In five weeks the company “saved 10 tons of paper, \$100,000 dollars, and 28 tons of greenhouse gases from reduced energy in papermaking.”

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<sup>37</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

<sup>38</sup> Piasecki, Bruce W., Kevin A. Fletcher, and Frank J. Mendelson. Environmental Management and Business Strategy: Leadership Skills for the 21<sup>st</sup> Century.

**Medium-Term Efforts:**

After the company has made the environment a business focus it is now time to begin tracking and measuring all progress made and to develop a good environmental management system. The company might want to track issues by region, country, division, facility, or even production line. The company should definitely track regulatory requirements and should also follow “greenhouse gas emissions, air pollutants, water use, and waste.” Having concrete data helps management make more effective decisions and also helps to pinpoint strengths and possible weaknesses.<sup>39</sup>

Another effort that they might want to undertake is to make sure that a system of accountability is in place. The company might do this by linking environmental efforts to the bonus and performance review system so that there is a monetary incentive as well as an internal one. Even if there isn’t a monetary incentive it is important to make sure that employees understand that the company is committed to the environment and maybe include environmental performance as part of the promotion criteria.<sup>40</sup>

Communicating with all of the stakeholders is key throughout the entire process but the company might want to reach out to NGO’s and develop working relationships or partnerships to further solidify their commitment to the environment. For instance, Chiquita after receiving a lot of negative publicity, created an alliance with the Rainforest Alliance so that they have an NGO monitoring their behavior and giving them a stamp of approval now

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<sup>39</sup> Piasecki, Bruce W., Kevin A. Fletcher, and Frank J. Mendelson. Environmental Management and Business Strategy: Leadership Skills for the 21<sup>st</sup> Century

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that they have corrected their business mishaps. Educating your employees on the environment is also a vital part of the communication process because it will help motivate them to work harder and will give them a buy-in to the initiative.

**Long-Term Efforts:**

Supply chain auditing is one of the most important steps that a company can take to ensure that all of their business actions cause no harm to the environment. IKEA is an example of a company that has a very thorough supply chain audit program. They “dedicate dozens of employees and millions of dollars to diving into the supply chain and asking detailed questions about environmental and social performance. They implemented this initiative because they were receiving a lot of backlash from consumers about certain products that were non-environmentally friendly. For instance, some of the tables they were stocking were made from rare trees from the Amazon rainforest. Now that they have made those adjustments they are largely considered to be one of the most trusted companies in the world.”<sup>41</sup>

Innovation is the last truly important step that a business can take to improve their environmental policies. If they rethink their products and reexamine markets then they can create eco-friendly products that will appeal to customers and hopefully increase revenues and profits. By trying to be as efficient as possible the business can reduce costs and perhaps even generate new ways to make money.

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<sup>41</sup> Piasecki, Bruce W., Kevin A. Fletcher, and Frank J. Mendelson. Environmental Management and Business Strategy: Leadership Skills for the 21<sup>st</sup> Century

## **Case Study: Target Corporation**

“Success is making ourselves useful in the world, valuable to society, helping in lifting in the level of humanity, so conducting ourselves that when we go the world will be somewhat better of our having lived the brief span of our lives.”

- George Dayton, Founder of Target

### **Executive Summary:**

Over the past thirty years there has been growing concern for the environment in the United States and around the world. Approximately 60% of American consumers said that they think it is extremely or very important for companies to be environmentally conscious.<sup>42</sup> While Target Corporation already has a very good public reputation I believe they should expand their green initiatives to increase goods will while also capitalizing on new, growing opportunities that will cut costs and increase profits. Increasingly, it has become important for companies to seize competitive advantage through strategic management of environmental challenges.<sup>43</sup> Several actions that Target could take to gain this advantage are:

- Focus on making their existing buildings energy efficient through daylight harvesting and energy management systems.
- Increase customer participation and awareness about current green initiatives through initiatives like reusable bag reward, recycling drop off in stores, and by collecting donations for charities in stores.

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<sup>42</sup> Price, Tom. Issues for Debate in American Public Policy. “The New Environmentalism.”

<sup>43</sup> Esty, Daniel C. and Andrew S. Winston. Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage.

**Company Profile<sup>44</sup>:**

Target Corporation, usually known simply as Target, is an American retailing company that is the second largest discount retailer in the United States, behind Wal-Mart. Target was founded in Minneapolis, Minnesota in 1902 as the Dayton Dry Goods Company when George D. Dayton, a banker and real estate investor, took sole ownership of Goodfellow's Dry Goods Company and converted the store. In 1918, George Dayton created the Dayton Foundation with a 1 million dollar endowment and a purpose to "aid in promoting the welfare of mankind anywhere in the world." They continued their philanthropic business practices when in 1946, The Dayton Company established the practice of giving 5% of pretax profits back to the community. They were the second American company to establish a preset amount of annual giving.

On May, 9 1961 the Minneapolis Tribune reported that the Dayton Company planed to form a new discount chain store. The new President, Douglas J. Dayton stated that this new store would "combine the best of the fashion world with the best of the discount world, a quality store with quality merchandise at discount prices, and a discount supermarket...75 departments in all. Shopping at the new, currently unnamed store will be fun, delightful, and welcoming to the entire family. The stores will include wide aisles, easy-to-shop displays, fast check-out and, load of well-lighted parking for 1,200 cars."

In 1962, the Dayton Company came up with the name "Target" and immediately envisioned a classic bulls-eye logo. The reasoning behind the choice was "As a marksman's goal is to hit the center bulls-eye, the new store would do much the same in terms of retail

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<sup>44</sup> Target Corporation's Website. < <http://sites.target.com/site/en/company/page.jsp?contentId=WCMP04-031698>>. 2010.

goods, services, commitment to the community, price, value and overall experience.” And on May 1, 1962 the first Target opened in Roseville, Minnesota. By the end of 1962 Target opened additional locations in St. Louis Park, Crystal and Duluth Minnesota. The company was so successful that on September 6, 1967, the company went public and had five autonomous divisions: Dayton’s department stores, Target stores, B. Dalton Bookseller, Dayton Jewelers, and Dayton Development Company.

In the 1970’s Dayton Hudson Corporation continued its support of the environment by observing Earth Day by giving out pine trees to guests and supporting store team members who volunteered to plant trees and clean parks in Minnesota, Missouri, Texas, Colorado, and Oklahoma. In 1973, the also created the Holiday Helpers program which offered a great holiday-shopping event for senior and disabled guests by providing personal shopping assistance and a friendly, festive shopping environment. Target also became a lead sponsor of the International Trans-Antarctica Expedition. The expedition became a world-wide learning tool for environmental and scientific issues of Antarctica as classrooms across the country learned about the unique ecosystem activities, workshops, and televised specials.

Because of their commitment to the community and the environment, President Ronald Reagan awarded the Dayton Hudson Foundation the President’s Committee on the Arts and Humanities Medal of Honor for its community giving in arts and social welfare. And in 1997, Target’s Good Neighbor volunteer program received the President’s Service Award from President Clinton which is the highest national honor given for corporate volunteer efforts.

In January 2000, Dayton Hudson Corporation changed its name to Target Corporation and its ticker symbol to TGT; by then, between 75 percent and 80 percent of the

corporation's total sales and earnings came from Target Stores. In 2001, Target opened its 1,000 store and now has a presence in every state except Vermont. In 2005, Target exceeded \$50 billion in annual sales.<sup>45</sup>

Target has also started selling fresh food in its stores and has even opened up their own food distribution centers and warehouses. In fact, in 2006, Target became a USDA certified organic produce retailer, one of the first grocers in the country to do so. To meet these guidelines, the produce is guaranteed to meet USDA organic standards on everything from how it's grown and transported to how it's stocked in their stores. They carry on average 700 or more organic items.

### **Target's Current Green Initiatives:**

Target's commitment to the environment is: Target strives to be a responsible steward of the environment. We seek to understand our impact and continuously improve our business practices to achieve the following goals: use resources responsibly; eliminate waste, minimize our carbon footprint, offer a selection of eco-friendly products; incorporate sustainable elements into our stores; and influence our vendors and suppliers to embrace sustainable practices.<sup>46</sup>

Target has been environmentally forward in the past and has even created an Environmental Services department to make sure they are focused on environmental compliance. Some recycling and reusing initiatives that have worked well are:

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<sup>45</sup> Target Financials

<sup>46</sup> Target Corporation's Website. <<http://sites.target.com/site/en/company/page.jsp?contentId=WCMP04-031698>>. 2010

- 80% of replaced roof materials were recycled in 2008 keeping 800,000 pounds of waste out of landfills.
- 4.5 million pounds of electronics were recycled in 2008
- Garment Hanger reuse program keeps millions of pounds of metal and plastic out of landfills. It also reduces work for employees because the clothing comes the stores already on hangers.

Some building and energy initiatives that have worked well are:

- 18 stores in California and three in Hawaii draw about 20 percent of their annual electricity needs from their own rooftop solar-panel systems.
- 40% energy savings by converting overhead store light from four lamps to two.
- Upgraded old stores and opened new stores with energy-efficient lighting and HVAC equipment. Installing LEDs in our coolers helps us save 50 percent in energy consumption, and we use motion sensor lights that shut off if guests aren't in the aisles.
- Brownfield Redevelopment- Target redevelops environmentally impaired properties, referred to as "Brownfield" sites. These properties may range from minor spill sites to former Superfund sites. Redevelopment of these properties is guided by a comprehensive understanding of a site's environmental conditions along with a feasible remediation solution that meets State and Federal cleanup standards.
- Green Roofs- In four stores in Chicago they partially or completely cover their roofs by hardy plants (typically sedums) growing in a thin layer of soil. Green



roofs filter air pollutants, absorb storm water, modify temperature fluctuations, and provide habitats for birds.

### **Green Recommendations:**

Obviously, Target already has some very impressive green initiatives but they are falling way behind compared to their number one competitor, Wal-Mart. Wal-Mart has went a step further than Target and has actually said that they would become a leader in sustainability, with three goals: reducing waste to zero, moving toward using only renewable energy and offering more products made in a way that preserves the environment. Vice-President Gore actually said that Wal-Mart is leading the way in the business community and are showing the world that “there need not be any conflict between the environment and the economy. We will find the way not only to reconcile (those), but to find new profits and new opportunities as we do the right thing.”

- Daylight Harvesting: Comprised of hundreds of skylights per store connected to sensors and state-of-the-art control technology. Daylight harvesting can reduce up to 75 percent of the electric lighting energy used in a super-center during daylight hours.<sup>47</sup>
- Energy Management System: Utilize a centralized energy management system to monitor and control the heating, air conditioning, refrigeration and lighting systems for all U.S. stores.<sup>48</sup>

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<sup>47</sup> Walmart 2009 Sustainability Report. Sustainable Buildings.  
<<http://walmartstores.com/Sustainability/9124.aspx>>.

<sup>48</sup> Walmart 2009 Sustainability Report. Sustainable Buildings.  
<<http://walmartstores.com/Sustainability/9124.aspx>>.

- **Expand and Market Reusable Bag Reward:** This program gives guests a five-cent discount for each reusable bag used at checkout. This discount saves guests money and on average, each reusable bag keeps 2.5 plastic bags out of landfills and eliminates the use of .17 pounds of plastic. With 1.5 billion transactions at Target each year, the potential impact is significant.<sup>49</sup>
- **Consumer Recycling Locations:** Batteries, Old Electronics, etc. will be collected at Target stores to help reduce waste and inspire customers to recycle and reuse. Target should partner with existing recycling operations to limit costs and increase efficiency.
- **Collect Donations at Check-Out for Environmental Organizations:** According to the Giving USA Foundation, “giving to environmental organizations increased by 7 percent from 2003-2004 and by 16.4 percent the next year—greater growth in both years than any other category of nonprofit organization.”<sup>50</sup>

All of these initiatives will help to make the company “greener” but also more profitable at the same time either through cutting costs or increasing customer loyalty and satisfaction.

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<sup>49</sup> Atlantic and Pacific Tea Company Green Initiatives.

<sup>50</sup> Price, Tom. Issues for Debate in American Public Policy. “The New Environmentalism.”

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