

Green Is As Green Does

AS PUBLIC INTEREST IN THE THREAT OF climate change grows in the United States, a large number of companies are announcing that they are going green. Some institutional investors are cajoling those who aren't. New business coalitions are forming to highlight the need for more action. Daniel C. Esty, a colleague of mine at Yale, and an expert on the connections between environment, business and law, goes so far as to say in a new book that business is now leading an environmental revolution in America.

While climate change is certainly a monumental challenge, I am skeptical that most big companies will move as far and fast as optimists hope. To be sure, there are exceptions. General Electric has announced a program to develop energy saving technologies across all of its divisions, from aircraft engines to light bulbs. Among its targets: to expand research on green technology from \$700 million in 2005 to \$1.5 billion by 2010. Wal-Mart is revamping its stores and transportation systems to use more renewable energy sources, and is pressing thousands of its suppliers to do the same. Its commitments include increasing energy efficiency in all its 5,600 stores by 25 percent within seven years. In 2006, Goldman Sachs invested more than \$1.6 billion in wind, solar, bioethanol and other alternative energy sources.

But for most of Corporate America real change will come much slower. Of course, almost all companies will be more careful to comply with the law, and all the smart ones will design sophisticated public-relations strategies to showcase their green credentials. But much fewer will make climate change a central part of their strategy, including tying compensation of their top executives to environmental achievements, and fewer will figure out how to make being green a tangible competitive advantage.

One reason is that the long-term horizon for meaningful actions to reduce greenhouse emissions is at odds with Wall Street's show-me-the-money-now ethos. Between 1995 and 2005, for example, an-

nual stock turnover on the New York Stock Exchange increased from 59 percent to 103 percent. This trend is bound to increase as more firms from the gigantic hedge-fund industry—where stocks are rarely held longer than a 12 months—get more involved. Last year, the tyranny of quarterly earnings reports was cited by 76 percent of a Business Roundtable sample of CEOs as a great inhibition to research and other activities necessary to create value for the long term. It's no wonder that chief-executive turnover in the United States in 2005 was up by 60 percent from

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1995 levels; these executives failed to satisfy shareholders' profit expectations.

What about pressure from institutional investors? A group of pension funds with at least \$200 billion in assets has just put Exxon, Wells Fargo and several others on a blacklist for substandard environmental efforts. Now these shamed firms will no doubt pursue more savvy pro-environmental public relations. But the influence of institutional investors on fundamental market behavior may not be that great. These institutions have been criticizing tobacco companies, but the stocks of Altria, RJ Reynolds and other such companies have outperformed the S&P for each of the last six years.



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Coalitions of companies such as DuPont, Duke Energy and Alcoa have themselves called for a comprehensive national policy, which they have dubbed "A Call to Action." However, this is less leadership than self-defense. These firms want national requirements in place of a patchwork of state regulations. They want to be at the negotiating table when the critical details of, say, a cap-and-trade system for carbon emissions, is hammered out in Washington. They worry that European companies, under stricter regulatory pressure from the EU, will gain a competitive advantage when the world eventually adopts tougher approaches to climate change.

In any event, these coalitions will not last, because industries such as oil, autos and agriculture companies will soon be at one another's throats vying for tax breaks and subsidies. Conflicting impulses are growing even within the most pro-environment companies. Already, GE is lobbying for easier standards for locomotive emissions. Toyota, soon to be the largest manufacturer of cars sold in the United States and maker of the hybrid Prius, has joined General Motors and Ford in pressing Congress not to enact strict mileage standards.

For Corporate America to really move on climate change, Washington will have to lead. Companies will have to demonstrate how their environmental policies create shareholder value in the short term as well as the long. And institutional investors will have to back their words with real money. Sadly, all this means that American companies are further away from real progress than it appears today.

GARTEN is the Juan Trippe professor in international trade and finance at the Yale School of Management.



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