The Greening of the Corporation

A new report analyzes how far advanced top companies are in addressing climate change and adopting environmentally friendly policies

By Heather Green

Some of the world's biggest consumer and tech companies, ranging from Intel (INTC) to Nike (NKE), are making strides to reduce their businesses' impact on global warming. But plenty of others, including Apple (AAPL), Estée Lauder (EL), and even Whole Foods (WFM), still have a long way to go. Ceres, an alliance of investors and environmentalists, outlines those findings in a new report that examines the climate-change policies of 63 of the world's largest consumer and IT businesses.

Ceres bills the report as the first comprehensive study of how the top global consumer brands are responding to climate change. Titled Corporate Governance and Climate Change: Consumer and Technology Companies, the report rates companies on several fronts: slashing greenhouse gas emissions; becoming more energy-efficient; and providing leadership at the highest levels for climate-change initiatives. The results rank companies in 11 industry sectors, including apparel, big-box retail, technology, and real estate. IBM (IBM), Tesco (TESO), and Dell (DELL) topped the list, while Burger King (BKC), Tim Hortons (THI), and Abercrombie & Fitch (ANF) were at the bottom. More than half of the companies scored less than 50 points out of a possible 100.

The study was carried out at the request of institutional investors in the Investor Network of Climate Risk (INCR), a group of 75 investors that are allied with Ceres and manage more than $7 trillion. Besides wanting to identify which companies are most environmentally friendly, the investors also wanted to understand the liabilities companies might face because of global warming. In the past, Ceres conducted similar rankings of utilities, heavy industries, and banks, which tend to be more directly affected by existing or potential carbon regulations. "Climate change poses real risks to corporations—risks that directly impact profitability and long-term viability," says Thomas P. DiNapoli, the New York State Comptroller and sole trustee of the state's $153.9 billion Common Retirement Fund, an INCR member. "Every step toward increased transparency and disclosure is a step in the right direction."

RIPPLE EFFECT

Now, investors are becoming more interested in the big consumer and tech companies. In part, that's because President-elect Barack Obama promised to cut global-warming emissions and is including green energy programs in his massive infrastructure stimulus plan. The U.S. could adopt a so-called cap and trade program for greenhouse gases, which would place limits on emissions. The policy would likely make fossil fuels more expensive, producing a ripple effect on balance sheets of these sprawling companies. Wal-Mart (WMT), for example, produces nearly 20 million tons a year of greenhouse gases, about the same as a utility.

Consumer and tech companies have additional financial incentives to go green. Increasingly, consumers want products that use less energy and they're avoiding companies associated with environmentally harmful practices or products, Ceres argues. That presents companies with an opportunity to be more competitive and enter new markets. IBM and Wal-Mart, for instance, are pushing for the development of products that help cut energy and carbon use—from more...
efficient flat-screen TVs to so-called intelligent energy grids that can monitor energy use and adjust pricing accordingly. "There is going to be a tremendous emphasis on energy efficiency in products and on what products and services can be billed as climate friendly," says Doug Cogan, director of climate risk management at RiskMetrics Group, a researcher that conducted the study for Ceres. "So there is an opportunity for these business to secure a greater market share and frankly improve their own corporate reputation."

In some cases, the most impressive results came from tech companies. IBM, Dell, and Intel are pushing hard to make their operations, data centers, and products more energy-efficient, Cogan says. IBM says its score reflects the years of work. "It's an area that's ripe for innovation, not just in corporate responsibility, but innovation in problem solving," says Wayne Balta, IBM vice-president for corporate environmental affairs. "We cannot continue to follow the same day-in-and-day-out practices. We have to change, and change will require new technology and business acumen."

On the other hand, with 28 points each, Apple and Texas Instruments (TXN) had the lowest scores in their categories. TI measured its carbon footprint for the first time last year, but the company hasn't set targets for cutting emissions. And Ceres said that its board and execs didn't appear involved in climate-change leadership. Governance is one of the main factors Ceres rates. Companies that integrate climate-change issues into their board and management structures tend to make and stick with long-term commitments, Ceres says.

**BRUISED APPLE**

Apple, meantime, recommended a vote against a shareholder proposal to create a committee on sustainability that would address environmental issues and hasn't made public an overall inventory of its greenhouse gas emissions or set public targets for its own operations, Ceres says. However, the consumer electronics maker, which says that over 95% of the company's carbon footprint comes from its products, released a carbon footprint, energy efficiency, and packaging details for each of its product lines in October. At the time, CEO Steve Jobs wrote that this approach was "the best way to help our customers make informed decisions about their own carbon footprint and how to reduce it."

Ceres expected higher scores from industries such as leisure and real estate, whose operations use a lot of energy, creating a more urgent need for environmentally friendly policies. Yet with 27, 27, and 17 points respectively, the travel & leisure, real estate, and restaurant sectors had the lowest average scores of all the sectors reviewed. Real estate developers and property managers in particular could benefit from lower energy costs, Cogan argues. Buildings account indirectly for about 40% of the greenhouse gas emissions in the U.S.

One trend that seemed to support Ceres' rationale for ranking these consumer companies now is that many of the low-scoring companies, such as Estée Lauder, are beginning to calculate and set targets for reducing greenhouse gas emissions. Ceres and its investor allies are betting that these companies are just at the beginning of the changes they'll eventually make because of regulatory and consumer pressure. "These are companies that consumers interact with every day," Cogan says. "We shop in their stores, buy their products, consume their food and drugs, and use their tech to keep us informed and conducted. They have a direct impact on our carbon footprint as individuals."

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