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The Rise of the Chief Green Officer

Source [John Davies, AMR Research](#)

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While solving the world's biggest problems profitably may seem like a stretch goal, industry leaders understand the need for building a sustainable business. Few, if any, question the impact of global warming, all have concerns about energy security, and the role of globally responsible citizenship is taken seriously. They also see unique opportunities for new products and services for the emerging green economy. The intersection of business risk and profitable opportunity is giving rise to a new role in the organization: the chief green officer.

The Journey from Compliance to Sustainability

Global enterprises do not pick up a focus on sustainability overnight. While many companies can rightly point to a long history of good citizenship and responsible stewardship, the impact of a business on the environment has become an increasingly important issue for senior management.

Many of the companies describe a journey of transformation -- a journey some have only recently begun while others started decades ago when their businesses faced critical environmental challenges.

For each of these companies, the journey can be characterized by four major stages:

- **Compliance:** Being legally accountable isn't really an option, but as a director at a large chemical company explained, "compliance by itself is extremely expensive. You need to integrate compliance to be a minor piece in a broader framework of sustainability."
- **Personal commitment:** In many of the leadership companies we visited, while past and present CEOs may have provided the initial enthusiasm, they also recognized the need for institutionalizing a philosophy of sustainability.
- **Public trust:** Earning public trust is a matter of mitigating risk as well as increasing brand attractiveness. While public relations, marketing, and lobbying efforts are sometimes viewed as "greenwashing," executives in leading companies dismiss that label. Their response is typically, "Don't trust us, track us."
- **Sustainable growth:** Besides being good community citizens, green business leaders are identifying opportunities to develop new green products as well as technologies that increase energy efficiency, reduce waste, and conserve critical resources.

Flipping the equation requires a change in perspective. While the journey for many enterprises can be described as a movement from compliance to corporate sustainability, the strategy needs to have teeth to be effective.

Enterprises that want to succeed in this new marketplace must integrate "green" thinking into their overall approach to business growth and profitability. One of the world's largest retailers described the change in perspective as follows: "At first, it was all defensive; we created checklists of things to do. But as the program evolved, it became more about being connected as a business in society. It was then that we saw the opportunities for growth as well as the savings from these initiatives."

As part of our work at AMR Research, we've developed the Green Leadership Framework, below. The framework is comprised of two axes of engagement: internal and external.



The lower left quadrant is relegated to issues of compliance. Green efforts driven by regulatory and legal compliance include responses to initiatives such as the following:

- Facility compliance: ISO 14000 is part of a series of international standards on environmental management.
- Product compliance: Includes legislation such as Restriction of certain Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE).
- Health and safety management: Includes OHSAS 18001, an international occupational health and safety management system specification. For many companies, compliance is a collection of tactical initiatives.

Leaders, however, focus on more strategic engagement, both internally and externally. Internal engagement efforts tend to not only comply but embrace required compliance initiatives and view them only as a starting point to drive greater change throughout the organization. Internal initiatives target efficiency improvements with goals set at local sites and measurement systems providing a global rollup of corporate performance.

For many leaders, the eventual measure of success is a zero environmental footprint. In terms of external engagement, compliance initiatives serve to provide greater organizational transparency.

Beyond transparency, enterprises strive for a position of greater public trust. To achieve that, they must approach external engagement with a more proactive approach in terms of communicating their green strategies as companies engage with a wider variety of stakeholders than has been the norm in the past.

This can include creating closer ties with communities where the enterprise does business along with [partnerships with non-governmental organizations](#) such as Greenpeace and the National Resources Defense Council (NRDC) -- organizations that may have been viewed previously as adversaries.

The companies that exist in the green leadership quadrant are characterized by a corporate strategy that leverages both internal and external engagement to create green business opportunities. Initiatives undertaken by these companies are characterized by integrating their internal and external efforts through a cross-functional approach. In terms of supply chain, this includes working closely with suppliers and customers to share best practices and green strategies for success. For new product and service areas, this requires a new level of engagement with customers to create new opportunities for them to be more efficient and green.

Structuring the Organization for Green

In leadership organizations, we have noticed two distinct trends in terms of defining the role of the chief green officer. The single most important trend is the appointment of a chief green officer reporting directly to the CEO. This senior executive has a broad span of influence and control in terms of pursuing the company's green agenda.

Organizationally, the chief green officer oversees both internal and external opportunities. This translates to having direct and indirect reports that oversee environmental health and safety (EH&S), energy, procurement, and regulatory affairs. In addition to these organizations, the chief green officer in many cases is also directly or indirectly responsible for environmental stewardship, corporate communications, strategic partnerships, and product innovation.

While the span of influence for the chief green officer is broad, corporate staff is kept lean. Rather than create a green bureaucracy, this person leads by taking a program management office (PMO) approach. The most important task for the chief green officer is to work with the management team to set the overall corporate strategy.

Once the corporate strategy is set, and the requisite goals and metrics established, the chief green officer works with various cross-functional groups within the organization to identify opportunities. His or her staff is then responsible for finding the disconnects within the business and identifying gaps where intervention is required. A common approach by many companies is to employ lean or Six Sigma expertise to address issues, disbanding the team once success is achieved.

As the role of the chief green officer becomes more well-defined, senior management is

looking for an agenda that positions their company for success in the future along with results today. There are three key items on this his or her agenda:

- Reduce environmental footprint
- Engagement with diverse stakeholders
- Discover new revenue opportunities

Toward a Zero Environmental Footprint

Companies are exploring a large number of initiatives to reduce their environmental footprint. These include purchasing a higher percentage of renewables (such as solar, wind, and cogeneration) for their energy portfolio. This must be balanced by investment opportunities in efficiency and conservation. The effects of these initiatives are not only bottom-line savings, but potentially new revenue opportunities as new commodities markets emerge for carbon dioxide and other greenhouse gases. Green leaders aren't debating the issue of global warming. In fact, many have outpaced the Kyoto Protocol to post inspiring results.

- Since 1990, DuPont has reduced global greenhouse gas emissions measured as CO₂ equivalents by 72%.
- IBM has reduced emissions 39% on 1990 levels by 2005 and saved over \$800M.
- 3M has achieved a 37% reduction in worldwide emissions between 1990 and 2004.

These efforts not only derive immediate benefits for the company and the communities they serve, but provide a long-term advantage when new commodities markets become mainstream.

Engagement with Diverse Stakeholders

Attaining a green leadership position also requires engaging with a broad constituency of stakeholders, including investors, clients, suppliers, and employees. Of an enterprise's traditional stakeholders, the greatest impact in the next five years will be on their supply base as chief green officers establish requirements for not only packaging and "greener" products, but also results by suppliers in lessening their impact on the environment.

Chief green officers will also engage more directly with governmental bodies and NGOs. This can make for interesting alliances:

- The Nature Conservancy and Xerox: Together these organizations are defining third-party forest certification standards to ensure that the company's paper is derived from responsibly managed forests, identifying best forest biodiversity management practices, and communicating them broadly with forest managers, paper suppliers, and others.
- Environmental Defense and DuPont: Both enterprises have formed a partnership to develop a framework for the responsible development, production, use, and disposal of nanoscale materials. The result will help ensure that nanotechnology's benefits are maximized while the potential risks are effectively assessed and managed.
- MTV and Wal-Mart: These groups have partnered for "Everyday Green," a unique joint initiative designed to promote sustainability and demonstrate to consumers how to work environmentally-friendly products into their lives.

Discovering New Revenue Opportunities

Finally, the chief green officer will be on a relentless search for new green products and services. This includes coordination between client advocacy boards and internal product development organizations as well as evaluating M&A opportunities.

Several firms have announced aggressive targets to grow annual revenue from products that create energy efficiency and/or significantly reduce greenhouse gas emissions reductions for their customers. Opportunities aren't limited to physical products, though. Financial services companies are financing alternative energy projects while others look to complement green products with new service offerings.

The Rewards of Going Green

Companies progressing toward a role of green leadership are reaping the rewards that this new perspective is bringing to their companies. Early movers are reporting long-term advantages, both in cost savings as well as new revenue opportunities. But the rewards extend well beyond the walls of the company to the response from the communities they serve, including the financial community.

Financial analysts and investors are embracing strategies that correlate environmental performance with a firm's financial performance, in part that environmental performance is a proxy for financial performance. One example of this is Innovest's Carbon Disclosure Project, which rates companies in terms of their environmental impact. Innovest has developed this ranking on behalf of 155 institutional investors that have assets under management of \$21T.

AMR Research predicts that the next few years are critical for manufacturers, retailers, financial services firms, and others as they establish their roadmap toward green leadership. While early adopters are already reaping rewards, there are still significant opportunities for a new generation of chief green officers.

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