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On February 2, a long-awaited report from the Intergovernmental Panel on Climate Change (IPCC) was released citing "unequivocal" proof of global warming caused by man-made emissions of greenhouse gases. Meanwhile, some of the biggest corporations in the world, including Wal-Mart, Ford, General Electric and BP, have adopted highly visible "green" strategies, embracing environmentalism in their marketing and core business operations. But what does "going green" mean for the bottom line? Whether motivated by desire to do what is right, or to polish their public image and fend off government regulation, companies can profit from well-designed strategies that embrace environmental goals, according to Wharton faculty and analysts.

The IPCC report's position that humans are spoiling the atmosphere -- a consensus of the world's top climate scientists -- is likely to generate even more corporate interest in green business, says Wharton Marketing professor Americus Reed (http://www.wharton.upenn.edu/faculty/reed.html). "It's really getting some traction now. There's a big idea in the scientific community about global warming, and I think consumers are much more aware of these issues than they were."

At one level, green marketing is a way to differentiate a company from its competitors in the consumer market, he says. "And when you market yourself as environmentally friendly, it also implies that your competitors are not."

According to Wharton marketing professor Barbara Kahn (http://www.wharton.upenn.edu/faculty/kahn.html), large companies have steadily increased their efforts to integrate environmental concerns into their marketing and core business strategies. For the most part, she says, the campaigns seem to be a sincere effort, not just a public relations ploy. "Corporations understand that part of their role is to be socially responsible, and I think that's genuinely the case. Good breeds good."

Research shows that in a competitive market, the perception that a company is socially responsible can be a major differentiation point for consumers, but it must be a sincere, deeply held element of the corporation's culture, Kahn says. "You need to have a history of this kind of social responsibility. You can't fake it.... It's hard to do, but that's what makes it worthwhile. If it's easy to copy, then it's no longer a competitive advantage."

Wharton legal studies professor Eric Orts (http://lgst.wharton.upenn.edu/ortse/), director of Wharton's environmental management program, says some companies may be motivated to promote green strategies out of fear they will be targeted by environmental organizations that could tarnish their image with consumers. Wal-Mart's recent emphasis on good environmental practices, for example, may be an attempt to generate social goodwill, particularly with upper middle-class shoppers, after the company suffered harsh criticism for its labor policies. "A lot of times a big company gets seriously burned in its reputation, [which is] what happened to Wal-Mart. Although that criticism was about employment issues, not the environment, sometimes these things all go together and you get a bad reputation that starts to hurt you," he says.

At the same time, Orts notes, many companies are growing convinced that addressing environmental problems will eventually enhance their bottom-line performance. "I think there are companies out there that believe this is a serious planetary issue, that business can't just sit on the sidelines, but must instead take a leadership role." Shell and BP are examples from the energy sector, says Orts, and GE and 3M are also examples. "But I would add that it is often difficult to ascertain how seriously particular companies take these issues. There is an important difference between 'greenwashing' and true commitment to a long-term sustainable strategy. It's not always easy for an outsider to perceive the difference, which is one argument for enhanced standards for environmental disclosure."

A Proactive Stance

Wal-Mart is not the only company hoping it can turn green into gold. According to Kyle Cahill, manager of corporate partnerships at Environmental Defense, the New York environmental advocacy group, Wall Street is also beginning to look at corporations through an environmental lens. Citigroup Investment Research has issued a 120-page report that identified 74 companies in 21 industries that stand to benefit from strategies that revolve around climate change. Meanwhile, Lehman Bros. has released its own report titled, "The Business of Climate Change," that calls global warming a "tectonic force," similar to globalization and aging populations, that will shape economic change.

"There is a sense in the investment community that climate change brings new opportunity," says Cahill. Moreover, companies are seeing that by addressing environmental challenges, they can run their businesses more efficiently.

"All pollution is waste, and waste is costly."

In addition, many companies are focusing on environmental solutions in the face of tougher regulations. The newly elected Democratic Congress and the prospect of a Democrat entering the White House after 2008 make the enactment of new environmental standards more likely, says Wharton management professor Lawrence Hrebiniak (http://www.wharton.upenn.edu/faculty/hrebinil.html). "I'd like to think this is all springing from [executives'] hearts," he adds, "but the majority of it is probably springing from sound business sense."

Companies can choose to react to regulation, he says, or proactively shape the nature of future environmental policy. He points to efforts by Alcoa, DuPont and major utility and oil companies to establish a cap-and-trade system for carbon emissions. Under this system, similar to one already in effect for sulfur dioxide, companies would receive a cap on the amount of harmful emissions they are allowed to make. Companies that want to exceed their cap can then trade credits for additional emissions with companies that are under their limit.

"It's inevitable. The government is going to do something. So companies can either react, or be proactive and control what's going to happen. The proactive stance is more strategic," says Hrebiniak. Government may also shape the development of companies in newly emerging industries -- such as biofuels and wind and solar power -- focused on solving environmental problems. The federal government is likely to provide funding and other incentives to develop new technology in these areas, he notes.

Firms operating in Europe are already used to much tougher environmental regulations, according to Orts. One example is "lifecycle" requirements, which mandate that companies find ways to recycle their products after customers are done with them.

A successful environmental strategy must be deeply integrated into a corporation's underlying culture and values, Orts notes. He points to Ford, where former chief executive William Ford, Jr., launched a visible campaign to introduce environmentalism to the company. Ford appears on television ads and installed an environmentally friendly grass roof on a showplace plant. Yet Ford's product lineup continued to rely on heavy trucks and sport utility vehicles that fell out of favor among consumers when oil prices -- and concern about a sustainable energy policy -- began to rise. At the same time, Toyota and Honda stood ready to profit from years of investment in vehicles with high fuel economy.

"We've known for some time that there are difficulties in petroleum supplies, but for a while the price was low and American companies were pretending it would not be a problem," says Orts. "Toyota and Honda made strategic bets that this wasn't going to go away. Now they are looking pretty smart."

Despite the commitment of Ford's CEO, the entire organization was not aligned around an environmental strategy. "It didn't go down deeply into the company. It shows it takes more than just the CEO. There were a lot of good intentions, but this is not an easy thing to do."

Orts cautions that a potential danger in building a core strategy around the environment is the possibility that one action will lead to unintended consequences that may harm the environment. Companies that promote their environmental credentials open themselves up to a public backlash if an element of their strategy is later discovered to be less than pristine. He notes that Levi Strauss has been reluctant to promote its use of organic cottons in some of its apparel for fear that it might draw attention to the way the rest of its cotton is produced.

Wal-Mart: "Not Two Worlds"

At Wal-Mart, the company's high-profile environmental strategy began in 2004 with a series of meetings with dozens of associates, customers, community leaders, government and non-profit organizations, broadly aimed at helping Wal-Mart find its place in society.

Following Hurricane Katrina, Wal-Mart chief executive Lee Scott announced the company's new emphasis on environmental awareness. "As one of the largest companies in the world, with an expanding global presence, environmental problems are our problems," Scott told associates in a leadership speech. "The supply of natural products -- fish, food, water -- can only be sustained if the ecosystems that provide them are sustained and protected. There are not two worlds out there, a Wal-Mart world and some other world."

Since then, the company has begun to develop a far-flung set of environmental initiatives touching on packaging, logistics, and store operations. Most recently, Wal-Mart has begun to reach back into its supply chain to eke out waste in its suppliers' operations and products, according to Andy Rubin, vice president of corporate strategy and sustainability.

Rubin says the company did not hire outside consultants to devise a strategy for the vast retailer. Instead, the company is taking a grassroots approach. Rubin is part of a three-member team coordinating strategies and holding managers accountable, but the ideas for potential environmental strategies are rising up from operations.

For example, Wal-Mart's seafood buyer is working with fisheries to produce fish in a sustainable way. Overfishing, Rubin notes, had been driving up the cost of seafood. Working with sustainable producers will help the environment, but also keep the cost of Wal-Mart's goods down, he says, allowing the company to continue to pass along savings to consumers and maintain its long-term commitment to low price.

Rubin acknowledges the company's decentralized approach to its environmental strategies opens it up to unintended consequences, but he says that for a company that operates on the size and scope of Wal-Mart, unintended consequences come with the territory. "Anytime we make a move, there are dozens of consequences, intended and unintended. That's what makes the opportunities so great... Our challenge is to listen to as many people as we can so we are as aware of the consequences as we can possibly be."

So far, Wal-Mart's suppliers have been open to discussing ways to improve their own environmental strategies and are providing the retailer with feedback and insights that are helping it shape its environmental policies, according to Rubin.

To doubters who view Wal-Mart's environmental crusade as public relations, Rubin insists that time will prove his company's intentions are pure. "We've said from the beginning, 'Judge us by our actions, not by our commitment.' We're doing this because it makes sense for the business. There are a lot more people who believe us today than two years ago, and there will be a lot more two years from now."

Despite what may be a growing sense that pro-environmental strategies can be good for business, Wharton's Reed says it remains difficult for many companies to take on socially responsible policies because it is still often difficult to show a clear benefit to the bottom line.

The rewards for adopting environmentally sound policies within a corporation take a long time, if ever, to become clear, he points out. While many top executives may be focused on the big picture of improving a corporation's environmental record, front-line managers need new incentives to take actions because they are usually judged on their quarterly results.

"The barrier to proliferation of socially responsible policies is that it's difficult to show social goodwill on the balance sheet," Reed says. "There is no column or item to say, 'Here it is, here's the savings in dollars.' That's the conundrum."

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