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Schumpeter

Green growth

Some emerging-world companies are combining growth with greenery

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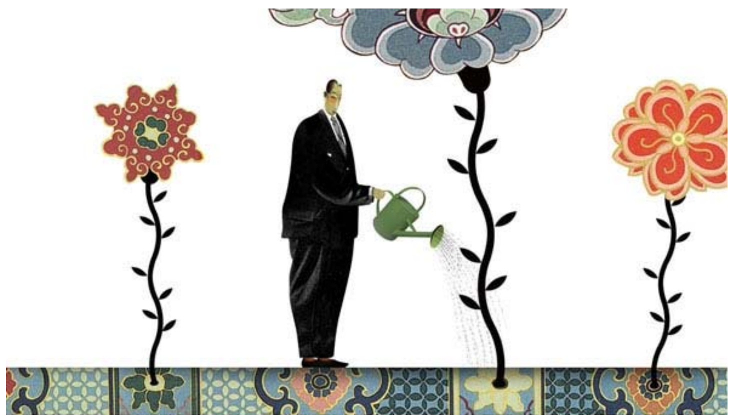

THE enrichment of previously poor countries is the most inspiring development of our time. It is also worrying. The environment is already under strain. What will happen when the global population rises from 7 billion today to 9.3 billion in 2050, as demographers expect, and a growing proportion of these people can afford goods that were once reserved for the elite? Can the planet support so much economic activity?

Many policymakers adopt a top-down and Western-centric approach to such planetary problems. They discuss ambitious regulations in global forums, or look to giant multinationals and well-heeled NGOs to set an example. But since most people live in the emerging world, it makes sense to look at what successful companies there are doing to make growth more sustainable.

A new study by the World Economic Forum (WEF) and the Boston Consulting Group (BCG) identifies 16 emerging-market firms that they say are turning eco-consciousness into a source of competitive advantage. These highly profitable companies (which the study dubs “the new sustainability champions”) are using greenery to reduce costs, motivate workers and forge relationships. Their home-grown ideas will probably be easier for their peers to copy than anything cooked up in the West.

The most salient quality of these companies is that they turn limitations (of resources, labour and infrastructure) into opportunities. Thus, India’s Shree Cement, which has long suffered from water shortages, developed the world’s most water-efficient method for making cement, in part by using air-cooling rather than water-cooling. Manila Water, a utility in the Philippines, reduced the amount of water it was losing, through wastage and illegal tapping, from 63% in 1997 to 12% in 2010 by making water affordable for the poor. Broad Group, a Chinese maker of air conditioners, taps the waste heat from buildings to power its machines. Zhangzidao Fishery Group, a Chinese aquaculture company, recycles uneaten fish feed to fertilise crops.

Setting green goals is a common practice. Sekem, an Egyptian food producer, set itself the task of reclaiming desert land through organic farming. Florida Ice & Farm, a Costa Rican food and drink company, has adopted exacting standards for the amount of water it can consume in producing drinks.

These firms measure themselves by their greenery, too. Florida Ice & Farm, for example, links 60% of its boss's pay to the triple bottom line of "people, planet and profit". The sustainability champions also encourage their workers to come up with green ideas. Natura, a Brazilian cosmetics company, gives bonuses to staff who find ways to reduce the firm's impact on the environment. Masisa, a Chilean forestry company, invites employees to "imagine unimaginable businesses" aimed at poorer consumers. Woolworths, a South African retailer, claims that many of its best green ideas have come from staff, not bosses.

In emerging markets it is hard for companies to stick to one specialism, because they have to worry about so many wider problems, from lousy infrastructure to unreliable supply chains. So the sustainability champions seek to shape the business environment in which they operate. They lobby regulators: Grupo Balbo, a Brazilian organic-sugar producer, is working with the Brazilian government to establish a certification system for organic products. They form partnerships with governments and NGOs. Kenya's Equity Bank has formed an alliance with groups such as The International Fund for Agricultural Development to reduce its risks when lending to smallholders. Natura has worked with its suppliers to produce sustainable packaging, including a new "green" plastic derived from sugar cane.

The firms also work hard to reach and educate poor consumers, often sacrificing short-term profits to create future markets. Masisa organises local carpenters into networks and connects them to low-income furniture buyers. Broad Group has developed a miniature device for measuring air pollution that can fit into mobile phones. Jain Irrigation, an Indian maker of irrigation systems, uses dance and song to explain the benefits of drip irrigation to farmers who can't read. Suntech, a Chinese solar-power company, has established a low-carbon museum to celebrate ways of reducing carbon-dioxide emissions.

Rich because green, or green because rich?

One could quibble with BCG's analysis. Phil Rosenzweig of Switzerland's IMD business school has argued that management writers are prone to "the halo effect": they treat the temporary success of a company as proof that it has discovered some eternal principle of good management. The fact that some successful companies have embraced greenery does not prove that greenery makes a firm successful. Some firms, having prospered, find they can afford to splurge on greenery. Some successful firms pursue greenery for public-relations purposes. And for every sustainable emerging champion, there are surely 100 firms that have prospered by belching fumes into the air or pumping toxins into rivers, as a visit to China or India will show only too vividly.

Nonetheless, the central message of the WEF-BCG study—that some of the best emerging-world companies are combining profits with greenery—is thought-provoking. Many critics of environmentalism argue that it is a rich-world luxury: that the poor need adequate food before they need super-clean air. Some even see greenery as a rich-world conspiracy: the West grew rich by industrialising (and polluting), but now wants to stop the rest of the world from following suit. The WEF-BCG report demonstrates that such fears are overblown. Emerging-world companies can be just as green as their Western rivals. Many have found that, when natural resources are scarce and consumers are cash-strapped, greenery can be a lucrative business strategy.

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