

CHAPTER ONE

# CHANGING FACE

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## Interface • BP

It's not the strongest of the species that survives nor the most intelligent, but those most adaptive to change.

— Charles Darwin

*Rather than resist change, Interface and BP chose to lead the evolution within their industries. They translated environmentally and socially responsible imperatives into business-building opportunities, thus successfully transforming themselves from challenged multinationals into model corporate citizens. Though their routes are unique, the results of their values-led efforts are similar. Both became more efficient and enterprising. Both achieved sustainable leadership positions. Furthermore, both created standards that continue to influence the global economy.*

On August 31, 1994, Ray Anderson delivered a speech that dramatically altered the course of his life and the fate of his billion-dollar, publicly held company. As chairman and CEO of Interface, an Atlanta-based manufacturer of carpets, textiles, and architectural products primarily for the commercial interiors market, Anderson had enjoyed increasing success since founding the company in 1973. In just twenty-one years, he had grown Interface from a niche player to an industry leader. He now counted sales operations in 110 countries and 5,500 dedicated employees among his company's greatest assets. But just weeks before Anderson's speech, a few savvy customers began to ask tough questions about the company's environmental policies.

Typically, the Interface sales team responded elegantly to customer inquiries — particularly questions about performance, quality, and durability. But in seeking to respond to these unexpected requests for a thorough explanation of the company's environmental vision, the team was at a loss. "It was an awkward question," Anderson says. "Awkward, because we couldn't get beyond, 'We obey the law; we comply.'"<sup>1</sup> So rather than ignoring the inquiries and moving on to business as usual, the president of Interface's research arm decided to organize a task force to evaluate the company's worldwide environmental stance. Anderson was asked to deliver his speech to kick off the group's first meeting. Feeling completely unprepared, he reluctantly agreed. Anderson realized that he needed to educate himself on the issues that he and his company had so far disregarded — and fast.

Not knowing where to start, Anderson picked up Paul Hawken's renowned book *The Ecology of Commerce*. Before long he was floored: "The theory presented in that book hit me like a spear in my chest. I would lie in bed at night reading

passages to my wife, and we would both weep together out of utter regret and the deepest sense of guilt.” Through Hawken’s book, Anderson absorbed several awful truths: that the earth’s biosphere is in a long-term decline, that such decline is rapid and catastrophic, and that business and industry are largely responsible for the mess. “My business was a culprit, and I was a plunderer of the earth,” he recalls.

It was a defining moment for Anderson, who realized that he could no longer run his company the same way. As he absorbed the wider implications of the unfortunate relationship between big business and the biosphere, he saw the world from a different perspective, one in which traditional capitalist tactics no longer seemed relevant. And so, on the day of his speech, Anderson presented his environmental task force with this new perspective and with a corresponding vision of an eco-friendly future for Interface.

In twenty-one years we hadn’t even thought about what we were doing to the earth. All we concerned ourselves with was whether or not there was enough raw material available for our products.

— Ray Anderson

His message stunned everyone — including himself. Because of the disparity between his company’s present and future course, the company had to be radically reinvented. Sourcing, procurement, product development, marketing processes, and research and development — all had to be aligned with a new and unusually ambitious goal. Starting immediately, Interface was to transform itself twice over — from an industrial “evildoer” to an environmentally sustainable company, and finally to an environmentally *restorative* company. Eventually, Interface would be the first name in industrial ecology worldwide, through action, not words.<sup>2</sup>

To an audience of seventeen awe-inspired yet baffled task force members, Anderson delivered this message with the intensity of someone who had just undergone a religious conversion. His vehemence was unlike anything they had come to expect from him. In the long run, Anderson's new fervor, radically heightened objectives, progressive thinking, and the management decisions that followed proved to be some of the best strategic moves the company had ever made.

Some of my employees thought that it was a naive inspiration. Others wondered whether I had gone around the bend, so to speak. The truth is, I had gone around the bend to see what's there! That's my job.

— Ray Anderson

At the time, Interface was the first United States-based industrial enterprise to take a comprehensive stand on environmental issues. Though many manufacturing companies talked about green initiatives, in reality the majority of their claims fell short. "Our competitors were doing zip," Anderson recalls. "We were the first in our category to face these issues comprehensively. I don't know of anyone else who has taken a more aggressive approach to solving environmental problems than we have." Anderson realized that the company's twenty-one-year practice of turning petrochemicals into carpets that last ten years and then spend up to twenty thousand years in landfills could neither sustain the planet nor jibe with a growing swell of consumer activism.

Today Interface owns the environmentally sustainable flooring market. Its eco-friendly policies stimulated a steady rise in market share, and the company is now the largest commercial carpet manufacturer in the world. In the nine years since Anderson's speech, the company's sustainable business policies have created new sources of revenue and allowed them to save more than \$231 million in manufacturing costs. In addition,

Interface has been twice named as one of *Fortune* magazine's "100 Best Companies to Work For." It has also been hailed as "the most highly evolved big company in the country" and "the corporation of the twenty-first century."<sup>3</sup>

Anderson himself has achieved icon status, having been described in the media as "the greenest CEO in America,"<sup>4</sup> as "a certified captain of industrial capitalism," and as the kind of "radical who makes the folks from Greenpeace look timid."<sup>5</sup> He has received numerous awards and recognitions — including the National Academy of Science's Mitchell Prize, the first CEO recipient ever. To spur other industrial leaders into following his example, as of October 2003 Anderson had personally delivered more than 600 speeches on the topic of business sustainability and has written *Mid-Course Correction*, a book outlining the first four years of his company's transition.<sup>6</sup>

But perhaps Anderson's greatest legacy lies in his company's demonstration of "cyclic capitalism" — a form of commerce that works to renew itself while at the same time renewing rather than depleting its parent source, the earth. The concept is straightforward: for the past one hundred years, industrial capitalism has been uncompromisingly linear, extracting raw materials and energy to make products and packaging that generate vast quantities of waste.

Over the *next* one hundred years, Anderson wants industries to increasingly conserve raw materials and energy while recycling their own waste to feed the product cycle. Previously a negative side effect of the industrial process, waste now has the potential to become a viable profit maker for forward-thinking companies. Interface has many economists talking because it is one of the first living models of how and why cyclic capitalism works — and an even better example of what it takes to make such a shift.

OLD INDUSTRIAL ECONOMICS	NEW INDUSTRIAL ECONOMICS
Linear Extractive Fossil-fuel driven Wasteful Focused on labor productivity Abusive	Cyclical Renewable Hydrogen driven Waste free Focused on resource productivity Benign

The references above are taken from Ray Anderson's essay "Mindset." As of May 2004, this essay had not yet been published.

EXCERPTS FROM ANDERSON'S 1994 KICKOFF SPEECH
<p>In the United States alone, some seventy thousand companies are already committed to some form of environmental commerce. We are in that group, but I do not think we are doing enough. We have not scratched the surface. We, and all businesses, have three issues to face: (1) what we take from the earth, (2) what we make, and (3) what we waste.</p> <p>We must acknowledge the following: (1) We at Interface take oil from the earth in the form of nylon, latex, bitumen, and energy. And we don't put it back. We must push the envelope until we no longer take from the earth. (2) We make products that end up, at the end of their useful lives, in landfills, polluting the earth. We must push the envelope until nothing we make ends up polluting the earth. (3) We waste all along the way. Our industrial waste is a pollutant. We must push the envelope until all our waste is biodegradable and recyclable back into the food chain.</p> <p>I believe it is good business, and will be increasingly so, to be stewards of the earth. Just as we know that quality doesn't cost, it pays, we must get to the point where</p>

stewardship (conservation) doesn't cost but pays. Our customers say they want it. Will they pay for it? We must see. We must give them the opportunity to tell us yes or no.

It is a huge technological challenge. And a big management challenge too. The management challenge is doable quickly, I believe. We can begin by benchmarking among our own businesses. We can adopt best practices everywhere. Then our best practices become better and better, in Kaizen fashion.

We can focus our technological know-how — which is considerable, especially in the chemistry area — on breaking down the problem and parceling it out among ourselves, our suppliers, and our would-be suppliers. We have a lot of leverage, both with suppliers and would-be suppliers, to get them to join the process.

So the bottom line today is: let us commit with this kickoff to not just sit here, talking with each other, but to doing something. Specifically, doing what? I don't know. You must tell me when you're ready. I know you will figure it out.

I'm reminded of what a NASA scientist told us at a sales meeting years ago. President Kennedy's mission for NASA to put a man on the moon by 1969 turned out to be flawed. It was too easy. After Apollo XII, NASA floundered, looking for a suitable new mission. So let's make our mission ambitious enough.

How about this for a mission: to convert Interface into a restorative enterprise, worldwide. How about this for a strategy: to reclaim, reuse, recycle, conserve, adopt, and advance best practices. And how about this for a goal: to achieve sustainability by \_\_\_\_\_. You must fill in the year. In fact, feel free to take each of these, massage them, develop them, then come back to me with your version of each.

Thank you for this beginning. I know it will lead to good things. All the best.

## CHANGING FACE

Many companies find themselves in an awkward position, stuck between their convictions and their actions, between notions of what *can* be done, given their resources, and what *should* be done, given their ideals. In most cases, the source of this stagnancy is fear — of the unknown, of not meeting quarterly goals, of disrupting proven processes, of being ridiculed by industry analysts. If you asked Ray Anderson, he would tell you that the key to overcoming these kinds of fears is facing the whole truth and that doing so can enable a full-fledged corporate turnaround.

“Though they were very painful at times, our internal discussions yielded a totally new worldview,” Anderson remembers. “We realized not only that our old business approach was upside down, but also that most economists had it wrong too. The economy is a wholly owned subsidiary of the environment. It’s not the other way around.” By owning up to the company’s past infractions and acknowledging its role in a larger, interrelated economic and environmental system, Anderson created a psychological shift that galvanized his workforce. “I remember the watershed moment,” Anderson says. “I was presenting my vision to our European contingency, and many in the audience were skeptical. After the speech was over and the group dispersed, I found one of my European managers sitting alone in the auditorium with a copy of my transcript in his hand. He was clearly emotional. He looked up at me and said, ‘I’ve heard this before, but I just want you to know that I get it now.’ I realized that the shared sense of distress over what we and companies like us had been doing would serve as the basis of our transformation.” Instead of dwelling on the past, Anderson and his team became charged by it.

A company's successful rebirth into true social responsibility requires rare leadership. A distinct combination of rational, emotional, and moral intelligence is key. If the CEO doesn't fully "get it" intuitively, then no one will. The magnitude of environmental or social consequences of the current business course must inspire in him or her an urgency to respond. Turnarounds require an authentic spark from the top. But if the first step toward corporate rebirth is revelation, the next crucial step is steadfast communication, as the arduous task of convincing employees, shareholders, customers, and suppliers follows. For Interface, this meant convincing each group to go about things in an entirely new way.

The economy is utterly dependent on the environment, and it is utter stupidity that we keep fouling the source of our wealth. The environment is the goose laying the golden egg, and we're ruining it.

— Ray Anderson

## ISSUING PARTICIPATION

Anderson made three key decisions that enabled his company to move forward. First, to sell his vision to stakeholders, he implemented a communications strategy that was akin to a political campaign. "I took every available opportunity to talk to people," he says. "I did sales and factory meetings. I talked to people individually. I addressed the supply chain directly, and I gave keynote addresses at international events. I did this for nine years, and I'm still going."

Knowing that with each audience he might face significant resistance, Anderson customized his messages, speaking directly to each group's ambitions and misgivings. Anderson approached each group incrementally — starting with employees,

HOW ANDERSON GAINED STAKEHOLDER SUPPORT	
WINNING EMPLOYEE ADVOCACY	<p>"I started with a core group of seventeen task force members and asked them to go back into their businesses and figure out ways to bring their teams closer to the new goal of company-wide sustainability. This transference of ownership from me to them created great momentum. From then on, every group I engaged with was given the same charter — which gave rise to innovation and in general enabled a very sharp focus."</p>
WINNING SUPPLIER ADVOCACY	<p>"I spelled out the new vision, and then basically said, 'Either come with us, or don't.' Luckily, their response was 'Okay, help us understand what you mean. We're with you.' In some cases, the outcome of our shared commitment to sustainability has changed the nature of their business as well as ours."</p>
WINNING SHAREHOLDER ADVOCACY	<p>"We [senior management] were hesitant to talk to shareholders at first because we weren't sure how to approach the issue of 'doing the right thing.' Ultimately, we created an initiative called QUEST, where we had a firm dollar metric to present as an indicator of the value and cumulative savings we had achieved through sustainable activities. That went down very well."</p>
WINNING CUSTOMER ADVOCACY	<p>"We had to establish a strong bond of trust. We did this through a strict policy of not foisting an inferior product onto customers in the name of sustainability. We were able to look customers in the eye and say, 'We need you to support our effort, and we'll never take advantage of you in return.' In addition, I gave a great many public speeches that have lifted our image in the eyes of the public."</p>

then suppliers, then shareholders, and finally customers — until he had built the necessary momentum and critical mass of support.

Anderson's second crucial decision was to pass ownership of the sustainability strategy from himself, as the visionary, to his audience, the implementers. He looked to employees, suppliers, shareholders, and even customers for the necessary ideas, solutions, and support rather than choosing a course of action by himself and directing others to follow. "This was key," Anderson says, "because everyone went back to their respective businesses and just started agitating. And that's where you start. That's how you *do* something, anything, to get started."

Anderson communicated the damage the company's classic industrial model of "taking, making, and wasting" had done as simply and directly as he could, while also leveraging Interface's presence. "We are big enough to make a difference, especially when our entire supply chain is engaged," he says. The company relies on such industrial partners as DuPont, Exxon, Solutia, Goodyear, and BASF to make its product cycle work, and Anderson depended on them to recognize the business potential associated with leading industry-wide shifts to more progressive environmental policies.

Anderson also purposefully harnessed the purchasing power of his customers. He understood that if he could convince them to follow along, Interface could dominate the sustainable commercial interiors category — thus forcing competitors to follow suit and slowly changing the industry as a whole. "Our customers are the largest corporations, the biggest hospitals, the largest government agencies, the finest universities, and the busiest airports in the world," he writes. "These fertile conditions just do not exist in very many corporations, and that is why the 'do' factor is so low."<sup>7</sup>

The third crucial decision that Anderson made was to invest heavily in team building. An ongoing series of employee training programs, which are still under way, set the stage for product and process innovations — the results of which Interface now takes to the bank. “We focused a great deal on letting go of old ideas, embracing risk, being willing to take chances, and learning that you can’t do it on your own. Out of this, we became a more tightly knit company. The effect of our training approach is that most everyone within the company understands what their role is.” Although Anderson admits that the vision still hasn’t completely penetrated the company, he adds, “Today if you picked someone off of the product line, they would most likely start talking about sustainability.”

### TAKING INCREMENTAL STEPS

Change at Interface began as more of a trickle up from below than as a big surge from the top, as small innovations eventually led to larger, system-wide improvements. One of the first ideas came from factory plant managers, several of whom

We focused on waste reduction and redefined quality as an absence of waste in any form. Very soon, this became the basis of everything we did. You could say that we ate the elephant one bite at a time.

— Ray Anderson

began reusing rather than discarding their carpet trimmings. They ended up preventing more than three million pounds of practically indestructible, nonbiodegradable nylon carpet scrap from being sent to landfills — per factory, per year.

Other Interface divisions began to tell similar stories. For instance, in one of the company’s best innovations, the

sales team decided to transform the way carpet was sold. Instead of customers purchasing Interface carpet the usual way — buying it, using it for ten years, and then throwing it away — Interface would lease its carpet, enabling the company to take back its products at the end of their cycle, disassemble them, and remake them back into new products.

Another bright idea came from the product development group. They resolved to remove one ounce of nylon per square yard of carpet, which comprised about 4 percent of the average Interface carpet’s total face weight, and see how the product held up under performance tests. To the group’s delight, product quality remained the same, and so the change was implemented. “The reduction of an ounce of nylon per square yard got to be a big thing,” Anderson says. “We discovered that by doing so we saved enough energy upstream to power our factory for two years.” Innovations like these continued to unfold across the company, giving rise to broadening policies and eventually to a far more explicit strategy.

At Interface, sustainability didn’t just mean environmental advocacy; it meant continually improving operational efficiency, thus improving shareholders’ return on investment and enhancing long-term company health. To permanently hold the company to this robust vision of sustainability, Anderson implemented the Seven Fronts, a design model that addressed every aspect of the company’s operations.

INTERFACE’S SEVEN FRONTS
<p><b>1.</b> Eliminate waste. <b>2.</b> Generate no harmful emissions. <b>3.</b> Use renewable energy sources. <b>4.</b> Achieve closed-loop recycling. <b>5.</b> Use resource-efficient transportation. <b>6.</b> Engage and sensitize stakeholders. <b>7.</b> Pioneer sustainable commerce.</p>

Through Seven Fronts, Interface would waste less and therefore spend less. It would consume less raw material, and therefore carry less inventory. It would streamline production, and thus use less energy.<sup>8</sup> In addition to improving the company's existing products and processes, the Seven Fronts approach led to some considerable breakthroughs, including the creation of new 100 percent recycled content product lines and of nonrecycled products made for easy disassembly and eventual reuse, as well as the sourcing of revolutionary and environmentally sound materials such as polylactic acid (a new fiber technology derived from corn) and hemp. Interface's eco-sensitive products ended up performing better in the marketplace and are still considered some of the most unique and aesthetically pleasing in the industry.

Since implementing the Seven Fronts, Interface has relied on the ideas behind cyclic capitalism to drive its sales and profits. In general, the past eight years at Interface have shown that increasing efficiency both bolsters social and environmental responsibility and delivers better value to customers and shareholders. Yet the transition from a linear to a cyclic economic model has not been entirely smooth. The company did experience a bump along the way when the industry lost momentum and skeptics began to question the viability of a truly sustainable industrial corporation.

### **FACING DIFFICULT TIMES**

During the fourth quarter of 1998, two years after Interface initiated the Seven Fronts approach, the commercial interiors industry turned soft. As customers woke up to the supposedly dire technological implications of Y2K, corporate funds were hastily reallocated to reconfiguring computer systems. Carpet

was the last thing on anybody’s mind. “Y2K really sucked the life out of our marketplace,” Anderson remembers. “Shortly afterward there was a nice rally, but then came the dot-com bust in 2000, and we’ve been operating in the worst environment our industry has faced in thirty years ever since. Financial performance has been miserable. Even though we have come back, we are still way below our peak.”

INTERFACE’S NET SALES (IN THOUSANDS)				
2003	2002	2001	2000	1999
\$923,509	\$924,084	\$1,058,846	\$1,283,948	\$1,228,239

Despite a three-year dip in revenues, Interface has taken aggressive steps to become more productive and efficient — without diminishing its focus on sustainability. As the company vehemently asserts to critics and shareholders in its annual reports, it is in fact now more productive and better poised to take advantage of an imminent economic and category upswing. Recent signs point to a growth trend for the company, as sales improvements have surfaced for the past four quarters in a row. Its first-quarter 2004 earnings were \$249.2 million, compared with \$210.2 million the previous year.

Looking behind the numbers is essential to understanding the whole picture at Interface — that is, how Interface’s Seven Fronts have affected overall company health. In addition to the company’s restructuring and new marketing

Some people have asked me, ‘If you had to do it all again, would you have continued to pursue sustainability in light of declining profit?’ My answer is, hell, yes! Sustainability has been our salvation. We have never had one thought about turning back.

— Ray Anderson

efforts, there are other encouraging signs. First, while the commercial interiors market as a whole has shrunk between 25 and 40 percent during the past three years, Interface has gained significant competitive advantage and experienced overall improvements in several key areas of its business. “What we can offer, better than any other company in the world, is modular carpet,” Interface’s current CEO Daniel T. Hendrix writes. “And modular [a more cost and eco-efficient carpet solution] is poised to explode across every market segment and around the globe.”<sup>9</sup> In addition, while many competitors have remained low profile over the past five years, Interface has amplified its presence and seized untapped market opportunities. As a result, the company has increased overall market share. Finally, Interface continues to develop more efficiently and to yield higher margins owing to its focus on sustainability. “We would be far worse off had we not been following a sustainability path,” Anderson says. “The savings we’ve gained have been crucial, and the goodwill in the marketplace has won us business we otherwise might have lost. From the top line through the bottom line we have benefited, while a number of our competitors have gone out of business.”

### NEW MEASURES

Interface has defined for the entire industrial world new notions of sustainability, prosperity, and capitalism itself. “It’s about processes, people, profits, products, and purpose — all growing out of the proper respect for the environment, the earth, and the people who live here,” Anderson says. Though the company’s business approach continues to progress, Anderson has stuck to his grand plan, which has allowed for unprecedented achievements.

<b>ECO-METRICS</b>	
<b>SUSTAINABILITY-DRIVEN SAVINGS</b> (CUMULATIVE, IN MILLIONS OF DOLLARS):	
1998	87.0
1999	124.0
2000	165.0
2001	185.4
2002	207.0
2003	231.0
<b>TOTAL PERCENT OF NONRENEWABLE CONTENT</b> IN RAW MATERIALS USED:	
1998	95.4
1999	95.3
2000	94.7
2001	93.9
2002	95.0
2003	94.1
<b>BTUs OF NONRENEWABLE ENERGY USED TO MAKE</b> ONE YARD OF CARPET (IN THOUSANDS):	
1998	16.3
1999	16.9
2000	16.1
2001	13.9
2002	12.8
2003	11.7
<b>OUNCES OF NONRENEWABLE YARN CONSUMED</b> PER SQUARE YARD OF CARPET:	
1998	26.1
1999	24.9
2000	23.3
2001	21.5
2002	21.6
2003	21.5

Since 1996 Interface has

- reduced its manufacturing costs by approximately 20 percent per dollar of sales;
- reduced the volume of scrap materials sent to landfills by 79 percent;<sup>10</sup>
- reduced its carpet factory water consumption by 56 percent;
- reduced its overall energy consumption by 31 percent;<sup>11</sup>
- reduced its global greenhouse gas emissions by 29 percent;
- reduced its petroleum-based raw materials consumption by 28 percent.<sup>12</sup>

For any challenge the company faces, or for any creative breakthrough the company wishes to make, Interface looks to nature for the solution. The evolution of the company's processes, people, profits, products, and purpose follows the laws of natural selection. Their success results from continually adapting to any given environment. "We've had to redefine ourselves many times over the years — through economic downturns, industry movements, the bursting of the technology bubble, and the aftermath of September 11," Hendrix says. "And we've risen to the challenge every time, reinventing and relearning our business, and always coming out the better for it."<sup>13</sup>

But far more significant than just improving itself, Interface has bettered the overall economy by challenging the mindset behind it. "Prosperity at the expense of the environment is fake prosperity — worse than Enron's or Worldcom's," Anderson writes. "Or, to put it another way: What CEO, given

a subsidiary that required a constant and continual infusion of capital just to keep it going, would keep that subsidiary? None that I know. Nature is a better manager than any CEO I know, and capable of being far more ruthless if she needs to be.”<sup>14</sup>

### ROUSING A GIANT

If Anderson’s task of transforming a challenged \$1 billion manufacturing company into a model corporate citizen seems grueling, imagine redirecting a \$179 billion empire in a politically scrutinized industry notorious for causing environmental degradation. This is precisely what Lord John Browne of Madingley, British Petroleum PLC’s group chief executive, has set out to do.

Browne, whose vision has helped BP grow from an oil company into a global leader in clean energy and eco-conscious business practices, has an unconventional personal history compared with other CEOs. At sixteen he began serving BP as an apprentice and gradually moved up through the ranks. During his climb, he managed to earn degrees from Cambridge University and Stanford University’s graduate School of Business. He finally took his post as group chief executive in 1995. Three years later, Browne was knighted by the Queen of England. Today he is regarded as one of Europe’s gutsiest and most influential corporate leaders.

As head of BP, Browne has made several industry-shaking statements. The most dramatic of these occurred in 1997 at his alma mater, Stanford Business School. Before a crowd of graduating students, faculty, and journalists, Browne acknowledged what other oil industry leaders previously had refused to talk about, let alone admit. Global warming, he said, was

indeed a problem, and it was essential that companies take precautionary measures to address the long-term risks of climate change.

While his proclamation came as a welcome surprise to some, others considered it nothing short of blasphemous.

While some of our competitors were not convinced by scientific arguments regarding climate change, others were. We crystallized an increasingly held view that prudent action was necessary.

— Lord John Browne

Browne had crossed political lines and broken with traditional petroleum industry ranks. He had forced competitive companies — most of which resisted the idea of mandated limits to greenhouse gas emissions — to publicly defend and proactively address their own environmental policies. Browne, in his restrained and dignified way, downplays the initial range of reaction: “Many people were

supportive, others were understandably skeptical, while a few were antagonistic.”

Browne went on to announce that, in response to clear evidence of climate change, BP would work to reduce its CO<sub>2</sub> emissions to 10 percent below 1990 levels by 2010 and invest heavily in renewable energy sources such as solar power. His proposal was immediately hailed by the press as “a maverick position in the oil industry,”<sup>15</sup> “a break as stunning as that which shook the tobacco industry,”<sup>16</sup> and “the most positive response [to the environment] by an oil company.”<sup>17</sup>

Some environmentalists mocked BP’s stance, claiming the new targets did not go far enough and thus “lack[ed] environmental credibility.”<sup>18</sup> At the same time, competitors asserted that “efforts to limit the release of greenhouse gases could severely disrupt economies and later turn out to be

unnecessary.”<sup>19</sup> At an oil industry conference a few months after Browne’s speech, Senate Majority Leader Trent Lott joined in the backlash, belittling BP’s pledged focus on alternative energy: “This is the hippies’ program from the seventies, and they’re still pushing this stuff.”<sup>20</sup>

Today BP continues to encounter critics at every turn. With its progressive proposals, the company serves as an easy target both of conservatives who resist change and of environmentalists who suspect ulterior motives. Browne doesn’t expect the company’s detractors to pull back anytime soon. He does, however, recognize why the company consistently attracts such opposition: “Sometimes [critics test us] to gain reassurance that we are living up to our commitments, sometimes because there is misunderstanding, and sometimes because they have seen opportunities that did not occur to us. Occasionally, people make complaints against us because we provide a platform and visibility for their own campaigns.”

Despite this skepticism, BP leads the industry in policy, practice, and performance. Since Browne presented the company’s 1997 environmental pledge, BP has met its 10 percent CO<sub>2</sub> reduction goal — nine years ahead of schedule. In addition, since Browne announced the company’s transition, BP’s revenues have climbed from \$109 billion to \$179 billion, while the company’s environmental efforts have directly generated \$650 million worth of value on a \$20 million investment.<sup>21</sup> Meanwhile, the company’s stock price has tripled, and BP has

Our progressive position created an expectation that we will strive to achieve constant improvement, and we should not be surprised when people test this resolve.

— Lord John Browne

twice produced the largest quarterly profit reported by any company in recent history. BP is now the world's second largest energy giant, the world's second largest producer of solar panels, and the world's leading supplier of cleaner-burning fuels.

However, as Browne willingly acknowledges, the company still has far to go — as the shift from oil and natural gas and renewable resources cannot possibly happen overnight. Like Interface, BP relies on petroleum resources, and thus the nature of its business creates negative externalities. Every day, it drills for oil in ecologically sensitive areas. Last year, it released 80.5 million tons of CO<sub>2</sub> into the atmosphere. It also reported 742 separate incidents of oil or chemical spills of at least one barrel or more. Then again, in addition to decreasing CO<sub>2</sub> emissions by some 14.7 million tons since 1998, the frequency of oil and chemical spills was 30 percent lower in 2002 than in 1999, indicating an improving trend. Also, like Interface, BP continues to outshine its competition by voluntarily setting ever more aggressive environmental and safety targets each year and by consistently delivering on its promises. Whether or not critics acknowledge it, BP, because of its actions and influence on the industry as a whole, is a corporate leader in environmental progress.

To discount the whole of a company's achievements based solely on its imperfections or on its history in an environmentally damaging business would be a grave mistake. During the past six years, BP has presented us with powerful lessons on how a company of enormous scale and influence can begin to serve both the greater good and shareholder interests at the same time. And this understanding is key to the evolution of the corporate world.

## EXCERPTS FROM BROWNE'S 1997 "CLIMATE CHANGE" SPEECH

There is now an effective consensus among the world's leading scientists and serious and well-informed people outside the scientific community that there is a discernable human influence on the climate, and a link between the concentration of carbon dioxide and the increase in the temperature. It would be unwise and potentially dangerous to ignore the mounting concern.

The time to consider policy dimensions of climate change is not when the link between greenhouse gasses and climate change is conclusively proven, but when the possibility cannot be discounted and is taken seriously by the society in which we are part.

We in BP have reached that point. It is an important moment for us. A moment when analysis demonstrates the need for action and solutions.

What we propose to do is substantial, real, and measurable. I believe it will make a difference. We're taking some specific steps to control our own emissions, to fund continuing scientific research, to take initiatives for joint implementation, to develop alternative fuels for the long term, and to contribute to the public policy debate in search of the wider global answers to the problem.

Nobody can do everything at once. Companies work by prioritizing what they do. They take the easiest steps first — picking the low-hanging fruit — and then they move on to tackle the more difficult and complex problems. This is the natural business process.

Our method has been to focus on one item at a time, to identify what can be delivered, to establish monitoring processes and targets as part of our internal management system, and to put in place an external confirmation of delivery. In most cases the approach has meant that we've been able to go well beyond the regulatory requirements.

No company can be really successful unless it is sustainable — unless it has the capacity to keep using its skills

and to keep growing its business. Of course, that requires a competitive financial performance. But it does require something more, perhaps particularly in the oil industry.

To be sustainable, companies need a sustainable world. That means a world where the environmental equilibrium is maintained but also a world whose population can all enjoy the heat, light, and mobility which we take for granted and which the oil industry helps to provide.

I don't believe those are incompatible goals. Everything I've said today — all the actions we're taking and will take are directed at ensuring that they are not incompatible. There are no easy answers. No silver bullets. Just steps in a journey which we should take together because we all have a vital interest in finding the answers.

### BP'S PATH TO GREENER PASTURES

When environmentalists accuse BP of being split between two motives, they are correct. BP's environmental and social programs *are* equally driven by moral conviction and the desire for profit. This is precisely why they have become so successful. "Being green and progressive is not a separate attribute from the other things that we do but is embedded in the way we run our business. Our social and environmental programs allow us to outperform the competition in the short, medium, and longer term," confirms Browne.

The folks at BP approach social and environmental initiatives as if they were products, services, or any other critical stream of business. So rather than simply channeling company resources toward philanthropy, BP designs its most prominent social and environmental initiatives around a specific business purpose. "We understand that we cannot be all things to all people," Browne says. After identifying an unmet need, BP determines the viability and potential worth of its green solutions:

“As a sustainable leader, we choose a pace of development that retains a lead, and we determine the business value that this provides, while not moving too far ahead of the industry, thus losing connectivity and simply becoming the exception.”

At least compared to the rest of the industry, BP certainly has become the exception, since it continually demonstrates the value of improving its practices by choice rather than by force of regulation. Browne believes that for natural resource-dependent industries in particular, positive ethical change should be more a matter of strategy than compliance: “This issue has to be seen in the broader context within which we are all running our businesses. Self-regulation has been gathering steam for some time, especially for safety and environmental issues, and particularly in Europe. There is an increasing recognition of the limitations of compliance and regulation as the tool to manage these issues,” says Browne.

“Unfortunately, there were, and remain, those who believe that the only way a company’s environmental performance can be improved is by mandated compliance. Our experience proves that this is not the case.”

A voluntary approach to regulation has served BP in multiple ways. In addition to diminishing the high cost of compliance and lowering other operating expenses, it has also given them a real competitive advantage. For instance, BP’s emissions guidelines exceeded Kyoto protocol standards well before other oil and manufacturing companies even agreed to comply with them. The company implemented an open reporting policy in advance of the accounting scandals that rocked the American

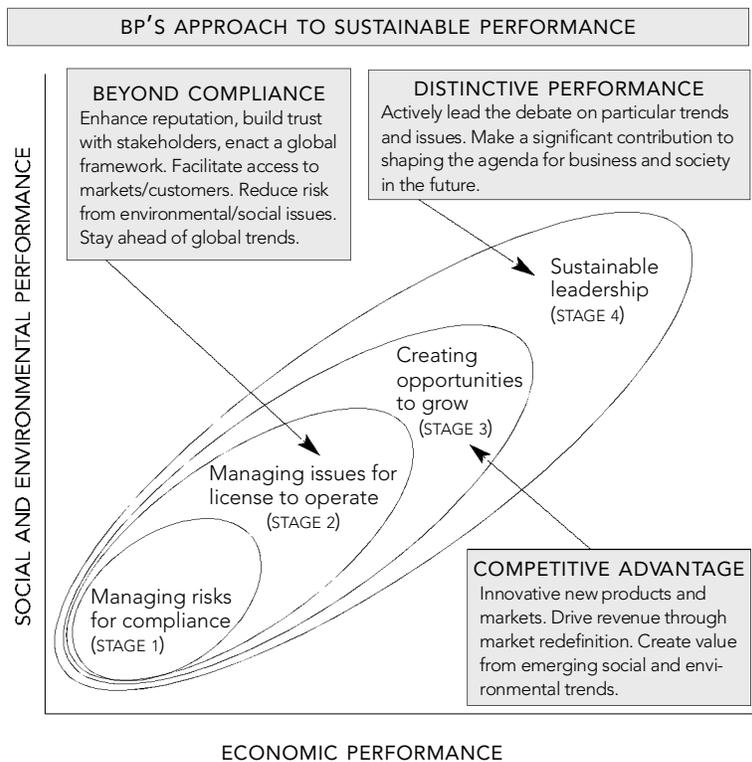
“We demonstrate leadership by articulating what needs to be done, and by presenting the options that may exist for meeting those needs. In creating these expectations, we gain broader competitive advantage — with enhanced access to markets and returns.”

— Lord John Browne

and international business world during the last few years. Its clean-fuel solutions were launched prior to any legislative requirements on fuel quality.

Guiding each social and environmental initiative is a company-wide policy of “no accidents, no harm to people, and no damage to the environment,” combined with a rigorous, strategic methodology, including four incremental stages, each of which the company has managed to reach relatively quickly.

Stage 1, which occurred before 1997, focused on compliance. The resulting defensive initiatives produced during this



stage were motivated mostly by regulation. This is where many companies find themselves today. But BP has managed to move into more strategically offensive territory. After achieving compliance, BP aimed to manage complex operating issues, to leverage competitive opportunities, and finally, to retain a leadership position in business sustainability.

With its current focus on sustainable leadership, BP committed itself to a continual process of innovation. It managed both to prescribe and to adapt future industry practices today and to do so without hurting short-term profits. BP continually launches programs that demonstrate how a positive link between social, environmental, and economic progress can work.

### **BP'S BEST PRACTICES**

Following its sustainable leadership strategy, BP has implemented a vast range of successful initiatives falling into one of four categories: responsible operations, thriving communities, sustainable mobility, and climate change.

Most striking is the fact that, in addition to serving a greater purpose, each initiative essentially pays for itself. For instance, BP's open reporting policy promotes responsible corporate behavior and reduces the high cost of compliance. The company's House of Peace and Justice program supports human rights and limits potential business risks associated with the security of its workers and facilities in foreign countries. The BP Ultimate line of low-emission fuels improves air quality while gathering market attention and producing immediate revenues. And the company's energy use policy limits greenhouse gas emissions and reduces costs.

A CROSS-SECTION OF BP'S SOCIAL AND ENVIRONMENTAL PRACTICES	
RESPONSIBLE OPERATIONS	<ul style="list-style-type: none"> <li>• Open reporting policy enables transparency of workforce safety records, business policies, operational procedures, and financial records.</li> <li>• Facilitation payments policy inhibits BP from paying, soliciting, or accepting bribes in any form.</li> <li>• Stakeholder engagement and location reporting programs manage social, economic, and environmental impacts of BP's operations in foreign countries.</li> </ul>
THRIVING COMMUNITIES	<ul style="list-style-type: none"> <li>• House of Peace and Justice program engages with foreign governments to proactively resolve tensions or disputes and to protect the human rights of local communities affected by BP's operations.</li> <li>• Government Partnership program converts oil and gas resources into billions in annual revenue—stimulating the economic and the social development of nations.</li> <li>• Social Investment program addresses urgent needs of communities in which BP operates, improving local infrastructure and increasing economic opportunity.</li> </ul>
SUSTAINABLE MOBILITY	<ul style="list-style-type: none"> <li>• New "BP Ultimate" product line provides better-performing, less-polluting gasoline and diesel alternatives in the U.S., the U.K., and Greece.</li> <li>• Clean Cities program delivers an array of unleaded, low- and zero-sulfur fuels in 110 cities worldwide.</li> <li>• System City initiative introduces more environmentally friendly and efficient lubricant and fuel packages for bus fleets.</li> </ul>
CLIMATE CHANGE	<ul style="list-style-type: none"> <li>• Energy-use policy saves fuel and enables ongoing reductions in company's greenhouse gas emissions.</li> <li>• Global Emissions Trading System reduces the costs related to lowering company emissions.</li> <li>• Natural gas development and promotion initiative seeks to replace oil and coal, thus lowering global CO<sub>2</sub> emissions.</li> <li>• Investment in solar, wind, and hydrogen fuel cell technologies drives the shift to renewable resources.</li> </ul>

The programs cited in the above table reflect only a limited range of the company's total social and environmental activities. As part of its sustainable leadership initiative, BP is in the process of piloting green projects in an array of countries, in hopes of finding success models that can be replicated company-wide and eventually industry-wide.

BP's latest project in Malaysia, for example, called MATRO (Membrane Application to Recover Olefins) has demonstrated its potential value by using innovative technologies that reduce the plant's CO<sub>2</sub> emissions by 30 percent, while recycling hydrocarbons back into the production process, thereby lowering materials costs for the company. Similarly, one of BP's successful projects in the Philippines has demonstrated that using solar technology to supply isolated villages with clean energy — thus allowing for local irrigation, drinking water, lighting, and education, while driving the company's renewables business — can be equally efficient and economically viable. BP also considers less-energy-savvy nations a key growth opportunity; its success in coal-dependent China has enabled the beginnings of a natural gas infrastructure for the country, while improving BP's bottom line.

THREE KEYS TO BP'S SUCCESS
<ol style="list-style-type: none"> <li>1. A company-wide sense of ownership, mission, and aspiration.</li> <li>2. A company-wide focus on achievable material targets.</li> <li>3. A positive correlation between social and environmental responsibility and profitability.</li> </ol>

Browne notes that the company's successful programs and ensuing green transformation have been made possible by three factors. The first is a shared sense of purpose: "Doing

something positive for the global environment generated enormous enthusiasm and creativity,” he says.<sup>22</sup> The second is the company’s relentless focus on achievable results, since no initiative is launched before BP determines, with the help of those responsible for the company’s operations, how feasibly material targets can be met. The third key to BP’s success has been the company’s ability to cement the connection between responsibility and profitability: “We have found that an action focused on any one of the three measures of economic, social, or environmental performance has positive benefits on the other two. So it’s not a matter of choice between economic or environmental and social performance,” says Browne.

### **OPEN COMMUNICATION**

BP’s social and environmental programs are steps ahead of the mainstream. They are strategically and operationally integrated, financially self-sustaining, and comprehensively monitored. The company also has demonstrated the value of another missing link: effective communication. If stakeholders do not understand the reasons for and nature of a company’s responsible efforts, then the company will be less able to win affinity and maximize potential rewards. Therefore, BP has implemented a comprehensive communications campaign designed to clarify its positions and to increase the visibility of its green activities. The company is working to break through to elusive groups, including nongovernmental organizations (NGOs), corporate and governmental partners, the press, shareholders, and the wider public.

Rather than relying on “green-washing” and positive spin,

the company's current public relations crusade, targeted primarily at NGOs and the press, seeks to clarify its standpoint and to offset the potential for misunderstanding. Chris Mottershead, BP's distinguished adviser on energy and environmental matters, explains the campaign's crucial message: "Underlying some of the specific criticism against us is a more general belief that the world does not need to exploit any new hydrocarbon resources. We do not believe this is a reasonable position. Both oil and gas should be developed to fuel economic growth and social progress. Our position is that hydrocarbons can be produced without serious impacts on the climate or increasingly on local air quality if modern technology is used. We believe that the single most important lever in avoiding serious climate change is the growth of [natural] gas to displace coal."

With its emphasis on natural gas as the bridge to using renewable resources, BP has launched an integrated brand campaign to convince the public that its posture is both progressive and authentic. BP's new tagline, Beyond Petroleum, illustrates the company's vision. "It is meant to serve as a powerful signal that the future will be different, and that while oil will remain the transport fuel of choice for many decades, natural gas will have a growing role in fueling clean power generation, and still more lies beyond this," says Browne. "There is an increasing spectrum of energy sources, and as a company, we are committed to increasing this range, particularly as energy becomes cleaner and less carbon intensive."

We can't do everything at once, but we can do something to address your concerns. We can show, year by year, that the products we supply contribute to a progressive improvement in air quality — without denying people the freedom of mobility.

— From [www.bp.com](http://www.bp.com)

A corresponding global advertising campaign further leverages this position through an open, honest approach to revealing the company's ambitions and achievements. It centers on the paradox of consumer desires both for a cleaner environment and for the modern efficiencies that energy provides. Each ad responds to the concerns of real people regarding cleaner fuels, foreign oil dependency, and the need for alternative energy resources with a statement about the company's progress so far.

In addition, on their website, BP welcomes commentary and criticism. This campaign, viewable at [www.bp.com](http://www.bp.com), aims at revealing the hard truth. As Browne notes, winning everyone over is not the point. Rather, the emphasis is on instilling a greater sense of empathy. If stakeholders understand that evolution is necessary in the energy industry and that BP must change itself one small step at a time, then trust becomes more achievable.

### **GREEN GROWTH**

There is absolutely no question that, through its green efforts, BP has become a much stronger company. If one removed the green aspect from BP, then the company's worth would be greatly reduced. Today green and BP are inseparable concepts. "BP is not about to diminish its focus on environmental, social, or economic performance. We would no longer be BP if we did," says Browne.

BP has successfully translated its core values into policies and actions that drive economic growth. Therefore, as opposed to other companies whose socially responsible efforts have been more recently implemented, barely communicated, and

casually monitored, BP counts returns today. “These benefits range from increases in profitability and improved volumes in some markets to an ability to define our own schemes for reducing the impact of our operations, rather than having them prescribed by regulators,” explains Browne. “There is also strong evidence that a green and progressive brand has allowed us to access the highest-quality staff — particularly young graduates.”

Recent figures reported by the company reflect clear financial and operational advantages. Today BP is far more efficient and robust than it was before its green efforts. To date, the company has

Good business is simply good business and will continue to deliver collective improvements to our financial, social, and environmental performance.

— Lord John Browne

- increased revenues by \$95 billion between 1998 and 2002;<sup>23</sup>
- achieved an annual solar business growth rate of 20 percent;
- reduced CO<sub>2</sub> emissions by 16.9 million tons since 1997;
- reduced total air emissions by 23 percent since 1999;
- saved \$650 million in energy costs since 1997;
- reported 30 percent fewer oil and chemical spill incidents than in 1999;
- reported 94 percent fewer safety incidents than in 1987.

While these results are impressive in and of themselves, their collective impact is far more significant. As a corporate leader, Browne has a great deal riding on his shoulders because of the company’s size. “Many people are dependent on our

success,” he notes. Last year, BP returned \$5 billion to its shareholders and employed more than 115,000 people worldwide. It channeled \$30 billion to 140,000 companies by procuring goods and services and returned another \$48 billion in tax dollars to governments across the globe. In conjunction with its employees, the company also invested \$97 million in community programs and charity organizations and contributed more than 108,000 hours of volunteer time.

Perhaps the most notable aspect of BP’s influence lies within the energy industry itself, since the company’s green actions have generated a macroeconomic tidal wave. BP predicted the rise of the renewables era and has positioned its resources and, as it turns out, the resources of others accordingly. Since Browne’s 1997 declaration, the top energy companies in the world — including Exxon Mobil, Royal Dutch/Shell, and Chevron Texaco — have invested millions in various processes intended to minimize waste and greenhouse gas emissions. Over the past five years, each of these companies has worked to instill stricter social policies regarding human rights and safety and to produce more transparent reporting of their social and environmental impacts. In addition, Shell has entered into the renewable energy market with considerable investments in solar and wind technologies. These other oil giants follow a greener path not simply because BP did it first, but because BP proved that it was worthwhile.

### PEARLS OF WISDOM

Today Interface and BP are strikingly different companies than they were ten years ago. Anderson and Browne made

conscious choices to transform their businesses from within, and both organizations experienced pronounced change. However, neither company was reborn overnight. What made these corporate transformations so successful was the way the change was implemented — gradually, tactically, and completely in line with shareholder interests. Another factor was strong moral leadership, which served as a foundation for positive results.

Browne and Anderson are beacons for corporate leaders who fear morally led change. To deny any company, no matter how large, the chance to become more socially and environmentally responsible based on a belief that such progress is too difficult, too expensive, or too risky is as irresponsible as it is ignorant. The idea that social and environmental performance must come at the expense of economic performance is an illusion. Only those who can see the strategic opportunities that exist beyond this illusion will be able to seize future benefits for their shareholders.

If Interface and BP prove anything, it is that integrity and courage can revive corporations. Although very different in style and approach, both Anderson and Browne embody these critical traits. Though neither holds a perfect track record, both are dedicated to improving their businesses and industries through responsible actions. Anderson encapsulates their shared perspective: “At the end of the day, the role of business is to generate prosperity and a better quality of life for everyone. So we should never operate at the expense of the earth or societies or future generations.” Business success, it turns out, is not a zero-sum game.

WHAT ADVICE CAN YOU GIVE TO OTHERS WANTING TO TURN THEIR BUSINESSES AROUND?	
RAY ANDERSON	LORD JOHN BROWNE
<p>"It is up to you to challenge the prevailing mind-set or paradigm that underlies the system. The current business mind-set is totally flawed, which is why most businesses are equally flawed. We must recognize that the earth's resources are not infinite and that all company actions have an impact on wider society and future generations.</p> <p>If enough of us acted with this understanding, then the world would change for the better. So before you make any business decision, ask yourself the question, What would the consequences be if everybody did it? Think big picture, and then change one step at a time."</p>	<p>"Simply do the right thing. As businesspeople, our key role is to create wealth both for shareholders and for the wider societies within which we operate. This can only be achieved by embedding a principle of 'no harm, no damage' throughout every aspect of business.</p> <p>Corporate responsibility is not an afterthought or a piece of public relations. Today's issues are too transparent for that. Ultimately, doing the right thing creates opportunities, builds trust, and creates commitment — all of which enable the collective improvement of a company's financial, social, and environmental performance."</p>