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On the Frontlines

Partners for the Planet

How Environmental Defense builds alliances to protect the environment

By David Yarnold

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Partners for the Planet

How Environmental Defense builds alliances to protect the environment

by David Yarnold

You know the world is changing when the largest corporate buyout in history hinges on an environmental commitment. That's what happened in February when two top private equity firms enlisted the help of Environmental Defense, a nonprofit that finds practical solutions to environmental problems, to acquire TXU Corp., the largest utility in Texas, for \$45 billion.

Last year, TXU announced an alarming plan to build 11 old-fashioned, coal-burning power plants in the Lone Star State. These inefficient plants would have spewed 78 million tons of carbon dioxide annually – more than the emissions of 21 states combined.

Not wanting to be saddled with those environmental dinosaurs, the new buyers, Texas Pacific Group and Kohlberg Kravis Roberts & Co., worked with Environmental Defense and the Natural Resources Defense Council to develop an unprecedented plan for turning TXU around. They agreed to cancel eight of the planned plants and instead to invest \$400 million to boost energy efficiency and explore environmentally friendlier coal technologies. They also pledged to join the United States Climate Action Partnership (USCAP), which supports a mandatory national cap on carbon emissions.

This marks the first time an environmental organization has partnered with a financial group to change the terms of a buyout. “Every college activist should study this story, because it is the future,” wrote Thomas Friedman in *The New York Times*.

The turnaround of TXU may be groundbreaking, but it's business as usual for Environmental Defense, where I serve as executive vice president. Over the past 17 years we have learned that successful partnerships flow from three steps: identifying leaders, pointing out how environmentally sound practices will help them with their own aims, and setting aggressive, yet attainable goals.

Get in Front of the Pack

It all started with a Styrofoam clamshell burger box. In 1990, Environmental Defense partnered with McDonald's to cut the fast-food giant's trash. Other environmental groups criticized us at the time, but eventually they were won over by the results: the elimination of 300 million pounds of unnecessary packaging, including foam-plastic sandwich

boxes. In another partnership with McDonald's, we called on the company's meat suppliers to protect antibiotics for human medicine by curbing their use in farm animals for nonmedicinal purposes. Four of the nation's top poultry producers soon reported ending this practice as well.

From this experience we learned to target market leaders – like McDonald's – that value innovation. People often ask why we work with individual companies more than with trade organizations. The reason is that trade associations represent the pack. Leadership means stepping out in front of the pack. Working with trendsetters gives us maximum leverage, because the changes they make ripple through their supply chains and cause competitors to follow suit.

Building on that model, we approached shipping leader FedEx Corp. in March 2000 with the idea of working together to develop a cleaner, more efficient delivery truck. FedEx was intrigued. Here was an idea that could cut unhealthy air pollution *and* save them money. Within a year, Environmental Defense and FedEx jointly launched the Future Vehicle Project and set ambitious fuel economy and pollution-reduction targets. Without dictating any particular technology, the partners invited proposals from truck manufacturers; they chose Eaton Corp.'s design for a diesel-electric hybrid.

Soon Eaton, FedEx, and Environmental Defense

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were meeting regularly. By 2005, the project had put hybrid trucks to work in four test markets. The new trucks go 57 percent farther on a gallon of fuel and reduce disease-causing particulates by 96 percent. Their success inspired companies from Frito-Lay to Florida Power & Light Co. to test and buy hybrid trucks, and Environmental Defense is working with other big fleets to do the same.

Find the Upside

Our second technique for building successful alliances is crafting projects with an upside for our partners. Otherwise the companies might not sustain their environmental improvements. Upside benefits may come in the form of cost reductions, risk management, shareholder value, and new markets. TXU's buyers, for example, are avoiding expensive lawsuits that could have put the plants in limbo for years. And FedEx stands to cut its fuel costs by nearly 50 percent over time.

To understand how environmentally sound practices could help Wal-Mart Stores Inc., Environmental Defense opened a satellite office near the company's corporate headquarters in Bentonville, Ark. – just like all of the company's major partners. Serving 175 million customers a week and coordinating some 60,000 suppliers, the world's largest retailer has a huge impact. Wal-Mart CEO H. Lee Scott has set similarly outsized goals, including doubling vehicle fuel efficiency over the next decade and constructing new stores that are 25 percent to 30 percent more energy efficient. Scott estimates that the early savings from what he describes as this "low-hanging fruit" can be as much as \$350 million per year.

For example, Wal-Mart buyers are looking to cut packaging by 5 percent

across the board in five years. Wal-Mart is also experimenting with a simple change in the packaging of a private-label toy, which will save 5,000 trees and 1,300 barrels of oil annually. The company says these measures could result in savings in the hundreds of millions of dollars.

Wal-Mart has also launched a program to purchase fish certified as sustainable by the Marine Stewardship Council. This shot across the bow of the fishing industry caused many fishermen who had never heard of certification to ask what it is and what they have to do to get it. And Wal-Mart wins, too, because responding to consumer awareness builds consumer loyalty for their brand – which in Wal-Mart's case needs some burnishing.

Of course, teaming up with Wal-Mart has risks all its own. We are well aware of the company's issues with healthcare, land use, labor practices, and employee benefits. Although our focus is on the environment, we are hopeful that success in one arena can help open the doors to other social benefits.

Aim High

A final strategy in Environmental Defense's arsenal is to use our expertise to set aggressive yet attainable goals. This sounds obvious, but it's not so simple. One secret of attaining aggressive goals is to stay "technology neutral": With FedEx, we told truck manufacturers *what* we wanted in environmental performance, but not *how* to achieve the desired gains. That freed the competing suppliers to use their ingenuity to deliver results.

Another way to aim high is to blend corporate collaborations with appropriate governmental regulations. Partnerships with corporations are a powerful tool, but they alone are

not sufficient to protect the planet. Governments must set strong policies that create for companies the right incentives for action. On no issue is this more important than with global warming, which presents American businesses with a big challenge and a big opportunity.

Recognizing this, we launched USCAP, our groundbreaking alliance with 10 of America's largest corporations. These companies have joined with us and other nonprofits in calling on Congress to pass a market-based cap on global warming pollution. USCAP would reduce U.S. emissions by 10 percent to 30 percent over the next 15 years. That target is similar to the goal California set in 2006 in landmark climate change legislation, which Environmental Defense co-authored. Not long ago, the notion of businesses asking the federal government for a strict limit on emissions would have been unthinkable. But a growing number of Fortune 500 companies – from Alcoa Inc. and Caterpillar Inc. to Duke Energy Corp. and Pacific Gas and Electric Co. – understand the need for decisive action. It's not just altruism that drives them; they crave certainty. They want to know what the rules of the game will be so they can plan their future strategy. Add to that savings from efficiency and increased revenues from satisfied, loyal consumers and you can see why smart companies realize that green business is good business.

Ultimately, when you ask people to do things differently, they have to trust you and know what you stand for. The environment is not a special interest, it's a public interest. And partnerships like these are milestones on the road to a new brand of environmental advocacy. □