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Ask the Experts

by Steve Rice & Richard MacLean
November 2002

World Summit After Thoughts

Also this month:


- [Finding top-drawer venture investment information](#)
- [Paper or plastic?](#)
- [The top five issues facing recycling today](#)
- [The pros and cons of socially responsible investing](#)
- [Got a question? Let us know.](#)

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In the September column you had less than optimistic projections for the World Summit on Sustainability in Johannesburg. Now that it is over, what are your opinions?

Steve: Even though I was invited at the last minute to attend on behalf of a non-governmental organization (for their benefit yet at my time and expense, so I politely declined the “offer”) I was not there. From published accounts and personal discussions, however, if it was an employee’s annual performance review I could give it a “meets expectations” rating. That might not be so significant except for the fact that the expectations were so low.

While the Summit did produce several “partnership” announcements and the WASH (Water, Hygiene and Sanitation for All) initiative, a softly-worded Tier 2 agreement with no measurable goals or timetables, perhaps its greatest achievement was that it got many of the financial,



governmental, non-governmental and trade stakeholders sitting at the same tables discussing common objectives. This provided the opportunity for those factions to get to know each other as fellow humans and begin the trust-building process.

Overall, though, there was little agreement and no substantive achievements. This result should not be not very surprising. As I have noted in this and other columns, significant agreement and achievement on global environmental and sustainability issues will happen only when there is a broad-based desire for common outcomes that benefit all relevant stakeholders. The Montreal Protocol on the ozone layer is a prime example of what can happen when that situation occurs. With sustainability, many perceive themselves to be either winners or losers. With the ozone layer, everyone recognized that they would be losers.

In the meantime, individuals can take control of the situation and achieve results without waiting for the 'global community' to take action. For example, one of my friends collects used bicycles, reconditions them and sends them to a South American country for no-emission transportation. A local interfaith group has an annual fund raising event to build village schools. Other individuals and groups have formed micro-loan organizations where people can use their "personal integrity collateral" to borrow small amounts of money to start home-based businesses.

Imagine all the good, small achievements that could have been made if the Summit's participants had taken the time and money that they spent on attending the conference and used it to provide others with high efficiency heating/cooling units, phone systems and school books, or a functioning farm cooperative. Now that would be progress – without all the CO2 emissions generated by flying to or from the Johannesburg!

Richard provides his observations and comments from another perspective.

Richard: I was also not there and, in retrospect, it was a good thing that I did not take the time and resources. The overwhelming message that I have received from the numerous articles and reports coming out of the meeting was disappointment. Yes, Greenpeace and business interests talked of partnerships and an international system to reduce global warming. And yes, a goal was reached to ensure reliable access to energy for 35 percent of Africans by 2022. But, any real progress on the tough issues (i.e. population control and the Kyoto Treaty) was elusive. In summary, there was a lot of talk, but no action.

Two recent reports mirror the same theme of talk and no substantive action. PricewaterhouseCoopers' *2002 Sustainability Survey Report* and Ernst & Young's *2002 Corporate Social Responsibility – A survey of global companies* report similar trends among the top corporations. Boards of directors are talking the language of sustainable development, but this talk has not made the transition to effective strategies and certainly not significant resource commitments.

The anecdotal case studies of sustainable development abound. It is easy for the public, and even corporate directors, to get caught up in the excitement of individual success stories in sustainable development. The illusion of tremendous progress can be seductive. That is why these two studies are so valuable in helping us get back to reality. Those of us who get to

peek, on occasion, behind the screen at Emerald City see some real efforts to pump up the public relations as the environmental staffs struggle just to maintain the status quo in these times of budget cutbacks.

Reality bites, as the saying goes. The outcome of the Johannesburg Summit comes as no surprise to us and other seasoned veterans of reality such as John Elkington, Sustainability's chairman/co-founder and the author of *The Chrysalis Economy*. In a Business and the Environment interview nearly a year prior to Johannesburg, he observed, "Frankly, I don't think that the summit next year will even begin to scratch the service of this set of issues."

[Back to Top](#)

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Where can I find good, concise information on venture investment and contacts for my environmental technology?

Steve: The most thorough yet concise source that I've seen the past several months is "George Taber's Guide to Financing Your Business", the Fall 2002 print supplement to [NJBiz magazine](#). While somewhat specific to New Jersey, it provides what I think are solid, clearly written sections on:

- An Investment Banker's Viewpoint
- Early Stage Investing
- Growth Stage Investing
- The Public Markets
- The Players and
- A Toolkit.

One chart, prepared by The Millburn Group on page 26 of the guide, provides a wonderful matrix of the various company development stages and the preferred equity/debt sources for each one.

Another "gotta-have" item, provided by Fred Beste of the Mid-Atlantic Venture Funds, lists a 12-point 'show-me' test for judging a company's prospects:

SHOW ME:

1. Somebody who can sell – preferably the CEO.
2. A bottoms-up sales projection.
3. An "unfair advantage".
4. Some team "skin" (owner's stake) in the game.
5. Some economic sacrifice – and low overhead.
6. Some passion – fire in the belly.
7. Some team depth.
8. Some reality in the financial projections.
9. Some valuation reasonableness.

10. Some respect for the competition.
11. A segmented market target.
12. Evidence of customer interest.

It is important to note that this advice, and the entire supplement, is not directed at environmental technology investment. That should not matter, though. As I have noted previously, first and foremost your technology must be a business. If it is a solid business opportunity with proper positioning and talent, it will probably get funding. If it is positioned solely as an environmental investment opportunity, you will most assuredly have a longer, harder sell.

You may also want to check out the article, "Lessons from Private Equity Masters" in the June 2002 issue of *Harvard Business Review*. This article provides insights into how the top private equity firms approach potential investment opportunities and explains four key business disciplines that they look for in such opportunities.

[Back to Top](#)

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We use recycled paper grocery bags as biodegradable kitchen trash bags. Are they better than plastic?

Richard: Both paper and plastic have their problems. While plastic is well known for its longevity in nature, even paper can take a long time to decompose as demonstrated by Dr. William Rathje at the University of Arizona. In the "The Garbage Project", he uncovered decades old newspapers that had been land filled; they were still perfectly legible. There are, of course, truly biodegradable plastic bags made from cottonseed and cornstarch, but they have never gained widespread commercial success.

Plastic bags are more inert once they get into the landfill. Biodegradable materials generate gases and liquid products as they degrade, and if the landfill or compost pile is not properly designed, these decomposition products could present environmental problems. Improperly managed waste can also be unsightly as it blows about the countryside. Where I live in the Sonoran desert, paper bags probably last longer than plastic ones on the surface because of the intense sunlight (UV) and lack of moisture. The reverse is true in humid climates. In Phoenix, it is actually illegal to have a compost pile in your back yard.

What is the best alternative? No bag at all, if you have a collection dumpster and a kitchen trash can that collects the daily waste. Save those plastic or paper bags for another trip to the store or better yet, use permanent cloth tote bags.

[Back to Top](#)

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What are the top five issues facing recycling today?

Richard & Steve: Public apathy may be the primary issue. State recycling managers report

that one of the most significant factors in waste diversion is high voluntary recycling. How are the volunteers doing? Not very well. For example, the Aluminum Association reported that recycling of aluminum beverage cans fell below a 60 percent rate last year for the first time in more than a decade. Raymond Communications' October 2002 [State Recycling Laws](#) Update reported similar trends in overall recycling: of the states surveyed, twelve reported declines and only nine reported increases. The Chartwell survey found declining recycling trends in seventeen states between 2000 and 2001.

Why the loss of interest? The economic downturn and the war on terrorism get blamed as the distraction du jour for just about everything. With respect to recycling, however, we do not think that they are the real culprits. The decrease is driven by a public that no longer feels threatened with environmental issues in their everyday lives. Local environmental conditions have improved over the past two decades and complacency has taken root. The global environmental issues that grab the headlines today are either invisible to the public (e.g., loss of topsoil) or are so massive that people feel they can do little locally to impact the outcome (e.g., decreasing fresh water supplies).

In addition to apathy, there are at least four other significant issues facing recycling today:

1. Pricing. Virgin raw material prices fall during periods of economic slowdown, eliminating the incremental savings, if any, associated with the use of recycled raw materials. Without the pricing discount to balance the uncertainties of raw material consistency and availability, the market demand for recycled materials declines.
2. Materials separation. Closely related to pricing, the market demand and pricing have not yet sufficiently taken root to spur the widespread product design that would facilitate, hence reduce the cost of, separating the desirable component materials from the whole product. Floor coverings may have made the most significant advances in this area. Electronics manufacturers have been so good at reducing the amount of valuable materials used in their products that there is little or no economic advantage to recovering electronics for their intrinsic material value. Shipping scrap metals to the Far East recovers metals, though uses fuel and generates emissions.
3. Local/regional rules in a global marketplace. Various states, groups of states and even countries can issue standards and regulations relating to recycling, but the evidence shows that the global marketplace abhors local/regional disruption – materials and pricing will adjust to those requirements and produce the proverbial ‘unintended consequences’.
4. Environmental footprint. Unless there is a 360 degree value chain within a relatively local region for the collection, processing, and reuse of the materials collected, I am not so sure that the emissions and resources associated with recycling, especially transportation, may not be greater than if recycling did not occur. I suspect that this is the case with the electronics recycling situation noted earlier. This type of analysis prompted many environmentally-sensitive producers of products using plastic containers to switch from polyethylene (which is the preferred plastic for recycling) to

polypropylene (strictly a one-way packaging material).

[Back to Top](#)

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Do you recommend, or warn against, socially responsible investing?

Steve: Either extreme is much too strong of a characterization of my opinion. "Optimistically cautious" would be more accurate, I believe, after looking fairly at both facets of socially responsible investing (SRI) - financial return and shareholder involvement.

Regarding financial return, it is important to invest based on facts and skepticism, not hope and hype. Despite the SRI funds' tantalizing promise of 'superior' returns, the facts are that most SRI funds provide modest returns comparable to the major benchmark indices; some are slightly better and some are not. Thus, people who are only seeking consistently 'better than average' or 'significantly better' financial returns through SRI will often be disappointed. Many SRI funds do not help their case by presenting confusing performance charts and inconsistent comparison benchmarks.

As noted last month, however, financial results may not be the only reason to invest in socially responsible funds. The larger SRI funds can use their shareholder size to drive social and environmental change through a) better access to senior company executives, b) sponsorship of shareholder initiatives and c) use of their share votes for or against specific shareholder initiatives. Some people are willing to compromise a certain level of financial gain in return for receiving these rather unique benefits of SRI.

There is a very good interview with Amy Domini in the September/October 2002 issue of [green@work](#) magazine that discusses the non-financial advantages of SRI. In fact, the article provides only one mention of investment results - through the use of a chart that shows the Domini Social Equity Fund's performance is essentially comparable to the S&P500.

So, if you interested in using your investment dollars to support shareholder involvement while at the same time receiving financial returns that are essentially comparable to the S&P 500 or other benchmark indices, then SRI could be a correct choice for you. Certainly the growth of SRI investment the past several years suggests that many others share that choice.

[Back to Top](#)

Got A Question?

Send your question about environmental management issues to
Experts@GreenBiz.com

We can't guarantee that we'll answer every question, but we'll try.

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